

THE INDIAN OFFER OF  
IMPERIAL PREFERENCE

## MR. CHAMBERLAIN ON INDIAN FISCAL POLICY.

"In my opinion, her [India's] wishes ought to be ascertained, as far as that is possible, before anything is done."—*Letter to Sir M. M. Bhowmaggree, M.P.*, Nov. 3, 1903.

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## MR. BONAR LAW ON INDIAN COTTON DUTIES.

"Our present position in India is impossible. . . . What is the Unionists' proposal? We say, 'If you want to put on tariffs, put them on against the rest of the world, but be a Free Trade country to us, and we will be a Free Trade country to you.' That is our policy for India. It is a policy which we can justify, and the present policy cannot be honestly justified."—*Speech, Oldham*, Nov. 9 1912.

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## INTRODUCTION

ENGLISH Free Traders have not infrequently invoked the existence of our Indian Empire as an insuperable obstacle to the adoption of Tariff Reform, and have charged Tariff Reformers with neglecting the study of this branch of the problem with which they have to deal. It is a charge to which the author of the following pages is not open. From the first Sir Roper Lethbridge has devoted himself with untiring energy to the elucidation of the true interests of India and their reconciliation with the special conditions of British policy and the larger interests of the Empire as a whole. He has brought to the consideration of his subject the qualifications given by long study of economic problems and by personal knowledge of Indian conditions and Indian feeling, and his writings in the Press both of India and this country have effectively contributed to the position in which the question now stands.

Hitherto, however, the question has been largely academic. A new importance and a new urgency have been imparted to it by the recent discussion in the Legislative Council of the Governor-General and by the brilliant review of India's economic position and its possible developments for which that discussion afforded an opportunity to Sir Guy Fleetwood Wilson, the Financial Member of Council. This discussion, printed as an appendix to the present work, should be studied by every one who wishes to understand the trend of Indian opinion or to grasp the present position and actual tendencies of British-Indian trade.

No one who is willing to face facts and admit the truth, even when it is unpalatable truth, will deny that the fiscal and economic policy now imposed on India by its British rulers is hateful to Indian opinion. No Tariff Reformer need dispute that, left to themselves, Indian representatives would establish a system of pure protection, directed as much against Great Britain as against the rest of the world. No candid Free Trader will pretend that in the system which we have established and maintain, with its odious excise on cotton goods manufactured in India, we are acting in accordance with Indian opinion, or even that we are

actuated *solely* by regard to Indian interests ; and few will be found to believe, in face of the growing Indian opposition and the new facilities for its expression which are accorded by the recent development of representative institutions, that this system can be indefinitely maintained. If we have no alternative to a system which leaves the infant industries of India a prey to the growing competition of the rest of the world, and especially of its rivals in the Far East ; if we insist on imposing an import duty on Lancashire cottons and then in the interests of Lancashire require that duty to be balanced by an excise on all cottons made in Indian power-mills, whether competitive or not, the end is certain—India will find its own alternative and will sooner or later secure its adoption.

But have we no alternative ? Is there no way in which the interests of India and the requirements of its public opinion can be reconciled with the interests of the United Kingdom, and the development of India's resources be made both to serve and be served by the development of the Empire as a whole ? Sir Guy Fleetwood Wilson, hampered and restricted though he was by his official position, not obscurely indicated that there was. Sir Roper Lethbridge develops and reinforces

his suggestions, and shows how on the lines of Sir Gangadhar Chitnavis' resolution Indian industry may be developed, British trade promoted, and the open sore of the present excise duties be healed. There is room for difference of opinion as to details, and the exact position which India may take in a system of Imperial Preference can only be finally determined after conference and consultation between the Indian and the British Governments ; but as a careful study of a problem which is urgent and even menacing, and as a contribution to its solution, I heartily commend this little book to the attention of my countrymen.

AUSTEN CHAMBERLAIN.

LONDON,  
*May, 1913.*

## CHAPTER I

### THE OFFER

THE whole aspect of the Indian fiscal problem has been altered by recent events. On March 17, 1913, India definitely came into line, on this great question, with the self-governing Dominions of the Empire and with the Unionist Party of the United Kingdom. By the mouth of the accredited leaders of her newly elected representatives in the Governor-General's Legislative Council, she submitted to the Imperial Government a resolution suggesting :—

“The desirability, in view of the loss of opium revenue, of considering financial measures for strengthening the resources of the Government, with special reference to the possibility of increasing the revenue under a system of Preferential Tariffs with the United Kingdom and the Colonies.”

This immensely important resolution was moved by the Hon. Sir Gangadhar Chitnavis, Member for the Central Provinces, and the leader (during the absence of Mr. Gokhale on the service of the Royal Commission) of the elected and non-official members of the Legislative Council—and his convincing and eloquent speech is printed *in extenso* in the Appendix.

In the debate that followed—which will be noticed hereafter—Sir Gangadhar was warmly supported by every Indian speaker without a single exception. The Finance Minister, Sir Fleetwood Wilson, replied on behalf of the Government of India. Sir Fleetwood's speeches are always distinguished by great knowledge, and, above all, by great sympathy—that is why the non-official members of the Legislative Council unanimously petitioned the Viceroy to recommend an extension of his term of service. In this particular speech there was much more than all this. Of course, as a Minister of the Crown under a Free Trade Government, Sir Fleetwood was

compelled to point out—as his predecessor, Sir James Westland, had pointed out in bitter language in 1894—that Indian fiscal policy must always be absolutely subject to the mandate of the Secretary of State and the Home Government. But he warmly welcomed Sir Gangadhar's motion, and the speeches of the Indian members, as most useful material for discussion; and his own speech provided the most powerful and the most scholarly defence of Imperial Preference against Protection for India that has ever been put forward.

The events leading up to this memorable declaration of the considered wishes of the Indian peoples on the fiscal question may be summarized in comparatively few words.

For many years past we have forced on India at the point of the bayonet a fiscal system detested by Indians—a system which, though varying from time to time, has always been dominated by the antiquated theories of Cobdenite Free Trade. Although the protected and sub-

sidized goods of foreign Protectionist countries have been dumped on India in ever-increasing volume, we have refused to permit the Government of India to impose any taxation on those goods unless such taxation is countervailed by equivalent excise duties on Indian goods, and by the same import duties on unprotected British goods. And we have rigorously insisted on the stern rule of Cobdenism, that all taxation must be for revenue purposes only, and none for the purpose of encouraging Indian industries. And as all India's industrial and commercial rivals have adopted Protection in all its scientific and most effective forms, the results—as will be shown in these pages—have been disastrous both to Indian and to British industry.

Hitherto, every year and throughout the year, the representatives of the Indian peoples, whether in Legislative Councils, or in National Congresses, or in industrial conferences, or in trade associations, or in the Indian Press, have demanded, in season and out of season,

the necessary protection for their industries—and hitherto protection, not only against the dumping foreigner, but also against the British manufacturer, and above all, against the cotton manufacturers of Lancashire and Scotland.

This national Indian demand for adequate protection for Indian “infant industries,” and the protest against the oppressive excise duties which handicap Indian industry in favour of Japan, were the first subjects taken up by Lord Morley’s enlarged representative Council in the debates of March, 1910, on the Budget. The speeches of the Hon. Sir G. Chitnavis, the Hon. Mr. Dadabhoy, the Hon. Sir Vithaldas Thackersey, the Rao Bahadur R. N. Mudholkar, the Hon. Sir Sassoon David, the Hon. Sachchhidanda Sinha, and the Hon. Mr. Gokhale, on this memorable occasion were absolutely convincing, and left the Free Trade Government with no argument unanswered save that of mere brute force.

In the same year the Bengal National Chamber of Commerce petitioned the

Government for protective duties on the export of raw jute and raw cotton to Japan, to enable India to meet the new Japanese Tariff.

In the course of the Budget debates of 1911 in the Governor-General's Legislative Council, the demand for the abolition of the excise on Indian cotton goods was repeated with greater emphasis than ever, as we shall see hereafter. The Hon. Mr. Dadabhoy, in moving the repeal of this tax, declared that, owing to the fiscal measures of the Government, "the Japan market is thus entirely lost to India. . . . The countervailing excise duty is in effect a clog to the Indian cotton industry." The Maulavi Sayyid Shams-ul-Huda appealed "to those who are the guardians of India's interests to take, in this matter, the only course which I think righteousness and justice demand." The Hon. Sir Sassoon David said: "The fiscal arrangement of the Government of India gives the advantage to foreign markets and a distinct disadvantage to the Indian industry." The

Hon. Mr. Chitnavis declared that "there was never any real competition between England and India in cotton manufacture," and that "the Indian appeal is against a tax which is clearly not wanted for revenue purposes, and which has weighted the Indian industry." The Hon. Partab Singh "strongly supported Mr. Dadabhoy's motion." The Hon. Sir Vithaldas Thackersey declared that the excise duties were "not only unjust to the manufacturers, but also to the poor of the country"; and he pointed out that this opinion had been expressed by every one, and not only by those interested in the industry. The Hon. Mr. Gokhale quoted Mr. Gladstone, who in 1879 declared that Free Trade principles were being applied to India "without a grain of mercy." The Hon. Mr. Mudholkar said that "all Englishmen owe it to themselves to repeal this anomalous and iniquitous impost." The Hon. Bhupendranath Basu pointed out that even the author of the tax had declared that his only excuse for imposing it was the "mandate" from

London ! The Hon. Mr. Sachchidananda Sinha, the Hon. Mr. Subba Rao, the Hon. Pandit Madan Mahan Malaviya, all spoke with equal vehemence against the tax ; and when Mr. Clark rose, he was obliged to admit the strength of the Indian feeling against it, and the truth of the broad fact that the trade to China and Japan had " very largely fallen off," and that many Indian spinning-mills had had to close down.

In November and December of the past year, 1912, Mr. Bonar Law, the leader of the Unionist party in the House of Commons, in his speeches at Oldham and Ashton-under-Lyne, pledged the next Unionist Government to concede to India the full right to exactly the same amount of protection that it will concede to the United Kingdom—the right to protect itself against all competitors outside the British Empire. And as to the trade within the Empire, he promised the fullest reciprocity—free trade between the United Kingdom and India so far as revenue considerations would permit, and

for every concession given by one side the most ample and equitable compensation to be given by the other.

In December, Lord Crewe, as spokesman for the Liberal party in his speeches at Cheltenham and Bournemouth, called upon Indians to "resent" these offers as "servile," and declared that the existing fiscal system, with its excise duties on Indian goods and its import duties on Lancashire goods, must be maintained in all its rigour, because the Liberal party thought it the best for India.

On March 17th the reply of the elected representatives of the Indian people was recorded in the Governor-General's Legislative Council.

Before this, it should be mentioned, the United Planters' Association of Southern India—a Society which, with its numerous affiliated bodies, numbers among its members some of the most eminent and representative Anglo-Indians in India, including some distinguished members and ex-members of the Legislative Councils—had passed *nemine*

*contradicente* the following important resolution :—

“That this Association do affirm its complete adherence to the following creed with regard to an Imperial Preferential Tariff :

“(a) We believe that British-grown *coffee* will be benefited by a preference in duty, and that it is sufficient in quantity for the consumption of the Empire.

“(b) We believe that preference in duty in favour of British-grown *tea* will have the effect of displacing inferior teas ; and, by giving the citizens of the Empire a wholesomer and better beverage, the moral and physical conditions of the poorer classes will be improved.

“(c) We believe that a preferential treatment of *rubber* will, in the near future, prove of inestimable value to an industry in which millions of British capital have been and are being invested.

“(d) We believe that a preferential tariff for *cinchona bark* and *quinine* is a matter of Imperial importance, and should receive the attention of every far-seeing British statesman.

“(e) We believe that preference with *cocoa* would remove the possibility of such a pitiful scandal as the one with which the names of reputable British firms were recently connected.

“(f) We believe that attention has not been sufficiently called to the danger to Great Britain and the Empire incurred by relying to such a very great extent on the supply of cotton from the United States of America, and that a preferential treat-

ment for British-grown *cotton*, by encouraging adequate production within the Empire, is the only way to safeguard the interests of Lancashire for all time.

"(g) We believe that British-grown *wheat* is necessary in sufficient quantities to meet the consumption of the Empire, and so save any part of it from the possibility of starvation in time of war, and that the only means to attain this ideal is by giving British-grown wheat a preference.

"(h) We believe that a complete Imperial preference tariff is essential to the maintenance of the power and prosperity of the British Empire, and that every effort ought to be made to render the Empire self-supporting.

"(i) We believe that the sentiment that would be engendered by a preferential tariff throughout the Empire would prove to be an Imperial asset and a bond of union of even greater value than the benefits that would arise from its commercial aspect.

"And that this Association do communicate these views to all other Associations, public and private bodies, Members of Parliament, and Legislative Councillors throughout the Empire, asking for their opinions and for their active co-operation in furthering the cause of Imperial Tariff Reform."

From this comprehensive resolution of the Indian planters it will be seen that, in the opinion of those who know best, there is ample room for preferences of great value to Indian agriculture in the

requirements of the United Kingdom and the Dominions.

But the resolution submitted to the Governor-General's Legislative Council on March 17, 1913, by the Hon. Sir Gangadhar Chitnavis, K.C.I.E., and the speeches in which it was supported by that distinguished Indian statesman and by all his Indian colleagues—including such men as the Hon. Mr. Rama Iyengar, the Brahman member for Madras, the Hon. the Raja Kushalpal Singh of Kotla, the Hon. the Rai Bahadur Sriram, and the Hon. Mr. M. S. Das, the member for Orissa—went far beyond the planters' resolutions. Sir Gangadhar put his rooted objection to the Cobdenite fiscal system that is now tyrannically forced on his country in one remarkably pregnant sentence :—

“We are not only not allowed by England to protect ourselves against her—which is intelligible perhaps—but we are not allowed to protect ourselves against foreign countries.”

He proved in a masterly manner that the chief rivals of Indian industry are to

be looked for in those foreign countries, and produced elaborate statistics to show the absurdity of the Cobdenite pretence that India has the smallest cause to fear their retaliation. The only "necessary" of the poorest classes in India that is imported is cotton cloth—it is obvious to the meanest intelligence that that particular necessary will be appreciably cheapened by the remission of all taxation on Indian as well as Lancashire cottons, and Sir Gangadhar pointed out that, as to more expensive commodities :—

"The conveniences of life which we so largely import will be as easily accessible to all as now—more of them will come from countries with which we are so closely connected, that is all."

With remarkable political insight, Sir Gangadhar pointed out that—as the late Sir Edward Sassoon was never weary of preaching—a Customs' Union with the Colonies

"would gradually secure for us there a better and more dignified position than we now have."

There is no doubt that the Dominions offer a grand market of the future for

Indian jute manufactures—and the truth of Sir Gangadhar's belief that a Customs Union would, as Sir Edward Sassoon said, "make India and the Colonies better friends," received an apt illustration from the useful results of the visit of the Hon. Mr. Gokhale to South Africa to obtain more honourable treatment for British Indians as citizens of the Empire. That visit accomplished more than the Colonial Office could do.

It may fairly be assumed that many, perhaps most, of the Indian Councillors—who in many cases are University-trained economists, and have their Friedrich List at their fingers'-ends in a way that would astonish the ignoramuses on the Radical benches of the House of Commons—would prefer, if it were at all feasible, to see India absolutely self-contained, and protected against Lancashire as well as against the foreigner. Some of the baser sort of Cobdenites endeavour to excite Indian prejudice against Imperial Preference on the utterly dishonest ground that it does not pretend to give India protec-

tion against Lancashire—although Cobdenism does not offer protection even against the foreigner, much less against Lancashire. But every honest politician knows perfectly well that no British Government that offered India protection against Lancashire would live for a week—and honest Radicals, like Sir Henry Cotton, have plainly stated that any such proposition is outside practical politics, as we all know it to be.

Sir Gangadhar Chitnavis and the other Indian leaders are well aware of this, and prefer to have the protection against Japan and Germany and the other dumping foreigners that is offered by Imperial Preference, rather than excise duties and no protection at all, that Free Trade forces upon them. And the remarkable speech of Sir Fleetwood Wilson on March 17th showed that in most respects, perhaps in all, even from the purely Indian view, Preference is better than blank and wholesale Protection.

It is the object of these pages to show that the policy recommended by Sir

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Gangadhar Chitnavis, and virtually confirmed by Sir Fleetwood Wilson in the powerful speech which is reproduced in the Appendix at page 144, is the wise and the generous one for India. It is wise in the interests of Indian industry, wise in the interests of British industry—and it is mutually generous, and therefore fair to both sides.

## CHAPTER II

### THE EXISTING FISCAL SYSTEM AND ITS CRITICS

THE controversy on Indian fiscal policy that was carried on between Mr. Bonar Law and Lord Crewe, in the Press and on political platforms during the closing weeks of 1912, served this useful purpose among others, that the attitude of the two great parties in the British Parliament towards this question has now been authoritatively defined with more or less precision.

India at present possesses what is rather absurdly called a "Free Trade Tariff." It is a General Tariff of 5 per cent. *ad valorem*, levied on all imported goods, both British and foreign, except a few specified commodities. And this tariff is

supposed to be brought into harmony with Free Trade principles by a specious but quite unworkable theory that whenever any Indian industry can be shown to be "protected" by this 5 per cent. import duty, its products are to be subjected to an equivalent countervailing excise duty.

This specious theory has been stated more than once in the House of Commons —both in reference to the woollen industry, to the oil industry in the course of the debate on the Indian Budget on July 26, 1911, and to the tobacco industry in the debate on the Indian Budget of 1910. But as a matter of fact no excise duty has ever yet been imposed on any ordinary manufacture—the salt duties, the liquor duties, and the opium duties are in a class by themselves, governed by other than fiscal considerations—except that on cotton goods produced in Indian power-mills. The story of this excise on cotton goods, which will be dealt with in detail later on, has been briefly told by an able non-partisan observer, Sir Valentine Chirol, with that precision and that

impartiality which characterize all his judgments on Indian affairs. Writing in the *Times* on September 9, 1910, Sir Valentine said :—

“ No measure has done greater injury to the cause of Free Trade in India or more permanent discredit to British rule than this excise duty on Indian manufactured cotton, for none has done more to undermine Indian faith in the principles of justice upon which British rule claims, and, on the whole, most legitimately claims, to be based. In obedience to British Free Trade principles, all import duties were finally abolished in India at the beginning of the eighties, except on liquors and on salt, which were subject to an internal excise duty. In 1895, however, the Government of India were compelled by financial stress to revive the greater part of the old 5 per cent. tariff on imports, including cottons, but under pressure from England they had to agree to levy a countervailing excise duty of 5 per cent. on cotton fabric manufactured in Indian power-mills. After a good deal of heated correspondence, the Government of India were induced two years later to reduce the duty on cotton manufactured goods imported from abroad to  $3\frac{1}{2}$  per cent. with the same reduction of the Indian excise duty, whilst cotton yarns were altogether free from duty. This arrangement is still in force. Rightly or wrongly, every Indian believes that the excise duty was imposed upon India for the selfish benefit of the British cotton manufacturer and under the pressure of British party politics. He believes, as was once sarcastically remarked by an Indian member of the Viceroy’s Legislative Council, that so long as Lancashire

sends 60 Members to Westminster the British Government will always have 60 reasons for maintaining the excise duty. To the English argument that the duty is "only a small one" the Indian reply is that, according to the results of an elaborate statistical inquiry conducted at the instance of the late Mr. Jamsetjee N. Tata, a 3½ per cent. excise duty on cotton cloth is equivalent to a 7 per cent. duty on capital invested in weaving under Indian conditions. The profits are very fluctuating and the depreciation of plant is considerable. Equally fallacious is another argument that the duty is in reality paid by Englishmen. The capital engaged in the Indian cotton industry is, it is contended, not British, but almost exclusively Indian, and a large proportion is held by not over-affluent Indian shareholders."

The peculiarly odious and irritating character of these cotton excise duties—which under Free Trade are absolutely necessary in India, unless British industries are to be ruined or India depleted of revenue—will be obvious to any one who will imagine similar duties imposed on our English and Scottish cotton-mills, or on those of Canada or our other self-governing Colonies. For the purpose of this tax every mill is compelled to furnish to the underlings of the Government—who are necessarily men on small pay, and therefore liable to be suspected (rightly

or wrongly) of being corrupt or extortionate or vindictive—monthly returns of every yard of cloth produced in the month, with particulars of quality, colour, and so forth. They are subject to the domiciliary visits of the Government inspectors, and are forced to throw open to them, if demanded, their books and accounts and thus to disclose their trade secrets. They are compelled to pay the excise on the cotton goods produced, assessed in this way, whether those goods are sold or not. This outside interference by Government servants is universally declared to be intolerable.

The late Mr. Commissioner Romesh Chunder Dutt—a resolute Indian Protectionist, who was not only fiercely opposed to Free Trade, but hardly less fiercely to the *via media* of Imperial Preference, for he demanded absolute protection against British goods as well as foreign—denounced these cotton excise duties as “unknown in any other country in the world,” and declared that the British Parliament would not dare to impose them

on Canada or on any Colony. In reply to Mr. Dutt, it has been alleged by Mr. W. Tattersall, the energetic leader of the Manchester Free Traders, that Lord Cromer had once imposed a similar excise on Egyptian cotton-mills, but he omitted to inform us of the disastrous result. Sir Henry Cotton, speaking at the National Liberal Club on Monday, January 27, 1913, said bitterly :—

“This countervailing duty existed nowhere else. Lord Cromer had tried it in Egypt, but the result had been to close the few factories there.”

When on March 9, 1911, the Hon. Mr. Dadabhoy moved the abolition of this excise duty every Indian-born member of the Viceroy’s Legislative Council, whether elected by a constituency or nominated by Government, voted for the motion or absented himself from the division—the Hon. Mr. Clark, who as Mr. Lloyd George’s private secretary had been nominated to the Viceroy’s Council presumably for the purpose of opposing this and similar motions, could not obtain a single

Indian supporter, though he demanded and obtained a division, which he carried by the unwilling votes of the English officials. The whole subject will be more fully dealt with later ; here it is sufficient to note that the excise system for all Indian industries that compete with imports remains a necessary part, and the most important part, of the existing Indian fiscal policy in order to preserve its Free Trade character.

Another condition imposed on Indian finance by the same inexorable law of Free Trade is that the General Tariff being for revenue purposes only, no differentiation is permissible. British trade, colonial trade, foreign trade, all must be treated on an exact equality ; and the relentless operation of this law is found in practice to impose severe restrictions on the freedom of the Government of India. Numerous instances of this difficulty have occurred. In 1894 Lord Elgin wished to impose an import duty of 5 per cent. on cotton goods, but Mr. Tattersall and Mr. Tom Garnett (now a member of the Royal

Commission on Imperial Trade) raised a great agitation in Lancashire, and Lord Elgin had to reduce the duty to  $3\frac{1}{2}$  per cent., as well as to countervail it by the excise duty. In 1903 Lord Curzon wished to obtain favourable terms for Indian coffee in France by reducing the Indian duties on certain French commodities; but the unwritten law of the Cobden Club compelled him to reduce the duties on those commodities all round, thus minimizing the benefit conferred on France and needlessly injuring the Indian revenue. In 1910 Lord Minto imposed a rather heavy import duty on tobacco, but the cigarette-makers of Bristol complained to Mr. Birrell and Mr. Hobhouse, and in the following year the duty was largely reduced.

The same unwritten law of Cobdenism—mere foolish and unpractical fetish-worship—forbids the Indian Finance Minister imposing, whether for revenue or for protective purposes, any export duties on Indian commodities exported to countries outside the British Empire,

unless the same duty be imposed on those commodities when exported to England or Scotland or the Colonies. There are certain Indian commodities, such as raw jute, lac, and the like, which are in their nature monopolies—which foreign countries must perforce purchase for their own industries at any price short of that which might bring in other competing commodities, and which, therefore, are admirably suited, under the strictest laws of economics, to bear an export duty. A moderate duty on the export of raw jute to countries outside the British Empire would bring in a revenue of two millions sterling—a revenue in itself sufficient to recoup the Indian Exchequer for the abolition of the Indian excise duties and of the import duties on Lancashire and other British goods imported. But under the rigorous laws of Cobdenism the Indian Government is estopped from proposing such a duty—though it would produce so much revenue, and though its effect would be to greatly stimulate the jute industry of

Dundee and Calcutta—merely because its effect would be to “protect” British and Indian industry from the dumping inroads of the foreigner.

The export of rice, indeed, in India has been subjected to an export duty, partly for revenue purposes, partly in deference to the Indian sentiment that the staple food of the country should be stored to provide for Indian emergencies rather than sent abroad to feed the foreigner. As rice is by no means a monopoly of India or Burma—the United States and many other tropical countries being keen competitors—the duty is economically indefensible. And here again Cobdenism steps in to aggravate the evil. For the inexorable law of the Cobden Club ordains that rice exported to Great Britain shall be taxed equally with that sent to foreign countries; so this export duty becomes indirectly a tax on British food.

The typical taxation of India under a fiscal system of Free Trade consists of (1) the salt duty, (2) the land revenue, and (3) the income tax. There are very

urgent reasons—as the Finance Minister of India urged, when he proposed Protective duties in his Budget of 1910—to show that we have reached the end of our tether in respect of these three sources of revenue.

For as regards income tax, the absence (as yet) of commercial and industrial enterprise, and the fact that the moneyed classes of India are practically invariably owners of land and pay revenue on their land, have this result, that the income tax falls almost entirely on Government servants and a few merchants and lawyers in the Presidency towns.

As regards the salt tax, it is an oppressive food tax of the most cruel kind, acting as a poll tax on the poorest of the poor. And though Lord Curzon reduced it to a minimum in the year of King Edward's Coronation, there is hardly an Indian or Anglo-Indian politician who would not protest against its increase as an outrage on humanity. It is true that Mr. Armstrong, of Bombay, as an extreme Free Trader, advocated the increase of the salt

tax in the place of the protective duties on tobacco, petroleum, and silver that were imposed by the Government in 1910; but that proposition was silenced by a general howl of indignation.

And as regards the land revenue—which throughout the whole of India (everywhere except in the districts under the Permanent Settlement) is paid by the poor *raiyats* on their little patches of land—as it already absorbs about half the proceeds of the cultivation of the soil, and even more according to Indian critics, there seems to be little room for further enhancement.

Such, then, is the existing fiscal system of India under Free Trade. By taxing every yard of cotton cloth produced in Indian factories—and by threatening similar taxation on the products of all other industries that may compete with the imports of the foreigner—it effectually strangles every nascent Indian industry, while it enhances the cost of the clothing of even the poorest. The salt tax, the income tax, and the land assessment are

inelastic sources of revenue, and any increase must fall on the poor. Next to the land revenue, the opium monopoly used to supply the largest item of the national revenue; but this had to be sacrificed, as Lord Morley stated in the House of Commons, "in order to satisfy British righteousness at the cost of Indian revenue." Every one is agreed that India's future depends on the expansion of her industries. Lord Minto, with a close knowledge both of Canada and of India, has warned us that, as in Canada, so in India, some measure of Protection is absolutely necessary for that expansion. His words were: "If you want to create great industries in India, I do not see how you can do so without something like Tariff Reform." Is it any wonder that every Indian is agreed that the Indian Cobdenite fiscal policy must be abandoned?

And yet Lord Crewe now definitely declares that this hated system, so disastrous to India's future, must be maintained at all costs. And, unhappily, the Liberal

party seem determined to follow him, and to make India once more a party question. And what reason does he give for this fatal resolution? He does not deny that it outrages the universal opinion of India. He does not attempt to show that Indian infant industries can reasonably be expected to succeed in spite of its trammels. He endeavours to discredit Imperial Preference, partly by confusing it with Indian Protection in order to alarm Lancashire, and partly by alleging that it will not give India any Protection at all in order to excite the "resentment" of Indian Protectionists. Lord Crewe makes this much, at any rate, perfectly clear, that the Liberal policy is to maintain the *status quo* in India, to defy the universal demand for the abolition of the iniquitous excise duties, and to continue to tax Lancashire and Indian goods equally with those of the protected and subsidized foreigner. And the sole reason that he thinks it necessary to give for this monstrous arrogance and oppression is that he and the

Liberal Party are of opinion that Cobdenism—or, as they prefer to call it, Free Trade—is the best policy for England, and that what is good enough for England is good enough for India.

The critics and opponents of Lord Crewe's policy are ranged under two categories—(1) the advocates of complete Protection for India against British and foreign goods alike, and (2) the advocates of Imperial Preference for India, with as near an approach to Free Trade between India and the rest of the British Empire as may be possible and convenient with due regard to the interests of each unit of the Empire, and with a moderate degree of Protection against the industrial inroads of the protected countries outside the British Empire.

The Indian Protectionist party includes practically every known politician, economist, and publicist of Indian birth. It also includes a large number of English Liberal politicians of considerable prominence in Indian questions, such as Sir Henry Cotton (Liberal ex-M.P. for East

Nottingham and a President of the Indian National Congress), Mr. Dadabhoy Naoroji (Liberal ex-M.P. for Finsbury and a President of the Indian National Congress), Sir William Wedderburn (Liberal ex-M.P. for Banff), Mr. Lees-Smith (Liberal M.P. for Northampton), and practically all the M.P.'s who were members of the Indian Parliamentary Committee organized by Sir Henry Cotton. The first plank in the platform of these gentlemen is the abolition of the excise duty on Indian cotton goods, with the maintenance (and in some cases the extension) of the existing import duties on Lancashire cotton goods. And some of them insist on the imposition of import duties of at least 10 per cent. on all British goods that compete with Indian products.

The advocates of Imperial Preference for India, on the other hand—headed by Mr. Bonar Law, Mr. Balfour, and Mr. Austen Chamberlain—recognize the odious character of the excise duty on Indian cotton goods, and propose to abolish it,

so as to meet the legitimate wishes of the whole of the Indian peoples; but they insist also that its abolition must be accompanied by the simultaneous abolition of the import duty on Lancashire and other British goods. It may be noted parenthetically that, inasmuch as Lancashire and India between them supply the great bulk of the clothing of the Indian masses, this simultaneous abolition of the taxation on both these sources of supply—even if the taxation on the foreign sources of supply be maintained or increased—will undoubtedly reduce considerably the cost of his clothing to the poor Indian *raiyat*. And in order to bring this about with the cordial assent and goodwill of India, they propose—recognizing the undoubtedly great value to the Empire in general, and to the industry and commerce of Great Britain in particular, of a free and untaxed admission to the vast markets of India—to arrange such great reciprocal concessions to the trade of India as will provide all that encouragement to her

nascent industries that is desired by patriotic Indians, as well as a widespread and even general stimulus to her agricultural operations. Further, they suggest that the commercial power of a united Empire will be able to obtain for India from all Protectionist foreign Powers such trading advantages as she could never obtain apart from that union. And lastly, they indicate such beneficial readjustments of the Indian fiscal system—rendered possible by the abandonment of the shibboleths of an obsolete Cobdenism—as will enable the Government of India, not only to cover the loss of revenue caused by the remission of taxation on Indian and British manufactures, but also to effect other reforms in the direction of relieving the Indian taxpayer from some of his more exacting burdens.

The speech of the Hon. Sir Gangadhar Chitnavis, K.C.I.E., in the debate at Delhi of March 17, 1913, which is printed *in extenso* at page 133, shows that Indian opinion, hitherto insistent on blank Protection against Great Britain as well

as against the dumping foreigner, has now, in the spirit of the highest statesmanship, voluntarily offered to the Mother Country and the self-governing Dominions the full and loyal co-operation of India in an Imperial system of protective tariffs. All the Dominions and the whole Unionist party in the United Kingdom are eager to accept this wise and generous offer, the adoption of which will strengthen and stimulate the industrial and commercial life both of India and of every other constituent State in the British Empire.

## CHAPTER III

### INDIA AS A PIVOT OF IMPERIAL PREFERENCE

INDIA is marked out, by every aspect of her polity and national life, as well as by her material condition and her prospects both as producer and as consumer, to be the pivot of any future scheme of Imperial Preference for the British Empire.

With the exception of the United Kingdom, she is at the present moment, commercially and industrially, by far the most important constituent State of the Empire. And as her exports consist almost entirely of food and raw materials for manufactures, and as her imports are very largely manufactured goods, her trade is coveted by every commercial nation on earth. And for the same

reason—as will be shown hereafter in greater detail—her international fiscal position is absolutely unassailable, and no foreign nation would ever dream of entering on a tariff war with her.

It is a very remarkable fact, not sufficiently appreciated or understood in England, that—although British Cobdenite prejudices have for many years endeavoured to hand over our Indian trade to our foreign protected rivals, and although those endeavours have been fatally successful (as will be seen presently) in many lines—India is still by a long way the largest employer of British labour in the world. In 1911, according to our annual statement of British trade (Blue Book Cd. 6336), India purchased “produce and manufactures of the United Kingdom” to the value of £52,245,664, while Germany was a bad second to the value of £39,283,683, and the United States came next, to the value of £27,519,356. The reason why this great and important fact is commonly obscured is simply this—that

we re-export to Germany and the United States such a large amount of "foreign and colonial merchandise," in addition to our own produce and manufactures, that the total of our exports to each of those countries exceeds the total to India. But this *entrepôt* trade gives employment to no British labour, except to a few merchants and shippers and brokers and their employees at the ports of transhipment, whereas practically the whole of our exports to India consists of the outturn of our own factories and workshops.

From every point of view, whether of production or of requirement, the United Kingdom and India are for all practical purposes exactly complementary. What the one most needs the other can best supply. Together, they constitute an absolutely self-contained and self-sufficing commercial and industrial unit; and if Free Trade be established within its limits, as Mr. Bonar Law has suggested, it will be by far the largest, richest, and most populous Free Trade area on earth. And as its internal

Free Trade will be fortified and stimulated by a fair and moderate scheme of protection against industrial inroads from without, the result will be the establishment of an industrial and commercial Power, organized according to the best lights of modern economic science, such as the world has never yet seen.

And I shall show presently that the mutual preferences that can be arranged between such a Power and each and all of the self-governing Dominions and the Crown Colonies will largely extend the benefits of such an organization throughout the whole Empire. Although our haphazard and obsolete fiscal system has rendered all trade between India and the Colonies almost impossible, she takes from some of them sugar, rice, tin, horses, and supplies others with rice, gunny-bags, tea, and other commodities ; and the success of the preferential arrangement between Canada and the West Indies that was engineered by Lord Balfour of Burleigh's Royal Commission is a pledge of a far wider expansion of

trade between India and the Colonies in the future, when more scientific fiscal ideas prevail.

So, too, with regard to foreign Protectionist nations—Britain and India, when united in a commercial defensive alliance, being absolutely self-contained and self-sufficing, and freed from the ridiculous trammels of Cobdenite prejudice, will be able to demand tariff terms from the foreigner very different from those now attainable. At present, when Japan raises its tariff to prohibitive heights, its heaviest weight falls on our trade—because, as the Japanese Foreign Minister dryly observed, our Free Trade system could offer them no preference in return for preference. The British Cobdenites whined, and begged Sir Edward Grey to exercise diplomatic pressure—obviously a most mean and humiliating attitude for us to adopt, as it amounted to asking for charity in a mere matter of business. At present, when two Protectionist countries negotiate a treaty of mutual Preference to the detriment of our trade, all we can

do is to sue humbly for "most-favoured-nation treatment"—and America boldly declares that such treatment cannot be accorded when concessions are made to them by others and not by us, while other Powers arrange their mutual concessions in such a way that "most-favoured-nation treatment" entitles us to claim preferential treatment for the claret or the currants that we do not produce! All that sort of thing will be changed in the twinkling of an eye when we can offer a substantial reduction in the duties for admission to such glorious markets as those of Britain and India, as a reward for those who treat our goods well—with the alternative of a substantial enhancement for those who treat us ill.

And where else could India look for such a potent commercial ally as she will have in Britain?

Moreover, the benefits will be absolutely reciprocal. Britain is the largest and most lucrative market for India's products of food and raw materials, as

the Colonies are for her manufactures. India is the largest and most lucrative market for Britain's manufactures. And the mutual preference will secure these great and valuable markets, each for the other, for all time.

In considering India's powers of production, it is necessary also to remember her potentialities for the future. With a population to-day of 315,000,000, she still has thousands of square miles waiting to be opened up, and millions of acres of cultivable land awaiting the irrigation-canal and the plough. She possesses every variety of soil and climate, with vast fertile plains both in the temperate zone and in the torrid, producing everything that is useful to man, whether as food or as raw material for manufactures. She has immense stores of coal, ironstone, manganese, gold, and almost every valuable mineral—with boundless jungles giving every kind of timber and other forest produce, and huge mountain ranges with limitless water-power for the supply of electricity.

Hitherto, Cobdenism has limited her industrial expansion, so as yet she exports all this wealth of raw material, to be worked up by Germany, Japan, and every foreign country. She provides all the raw jute, nearly all the lac, and a large proportion of the oil-seeds and the raw hides and skins and other materials of the tanning and leather industries, for the whole world. She produces more coal than any other part of the Empire except Great Britain, and more gold than any except Australia and the Union of South Africa and Rhodesia. She produces more wheat than any other part of the Empire—and more tea, coffee, sugar, cotton, jute, indigo and other dye-stuffs, oil-seeds, undressed leather, and cordage than all the rest of the Empire put together. With reasonable fiscal encouragement, she could easily supply all these commodities, as well as cocoa, spices, and many other products that have been starved by Cobdenism, in quantities sufficient for the whole of the Empire, if not for the whole of Europe as well.

So much for India as a producer. I shall show hereafter :—

1. That the Empire can easily absorb and work up the whole of this vast wealth of production, even with only the existing expansion of our industries, and even if India had not a single outside customer ;
2. That from the nature of these products, and in view of the requirements of foreign industries, India will not lose a single foreign customer by adopting Imperial Preference, but on the contrary will be in a position to demand better fiscal treatment for her trade everywhere ; and
3. That India's urgent need of industrial expansion to relieve her congested agricultural industries will be met, and provided for, better under a system of Imperial Preference than it would be even under a system of Protection, and far better than it ever can be under the blighting shadow of Cobdenism.

When we turn to consider the capabilities of India as a consumer in a great system of Imperial Preference, her pivot-

rôle in that capacity is seen to be quite as strongly marked as it has been shown to be in her capacity as a producer and the "universal provider" of the Empire.

For we have only to think of the value of such a market as that of India, the most progressive in character, and by far the greatest in area and population, of all the organized communities in the whole world.

Here we have a peaceful, law-abiding, industrious, thrifty, and highly intelligent population of 315,000,000 souls, only recently awakened to the full consciousness of civilized life in its Western sense, and rapidly improving its standard of living to a par with that of European nations. Fifty years ago literacy was rare, and largely confined to the priestly classes; to-day, there are more than 6,000,000 scholars in the 170,000 schools and colleges of the country; there are over 10,000 University students in the 170 colleges and five Universities of the land; and it is obvious that a generation so educated will form a people with

requirements and demands far higher and more numerous than those of their fathers, to be satisfied by the trade of the country.

Every individual of those 315,000,000 is necessarily a user of cotton clothing, and it has already been noted that since Lancashire and India between them supply very nearly the whole of that clothing, the moment that Imperial Preference remits the taxation on Lancashire and Indian cotton goods, from that very moment every poor *raiyat* in India will get his scanty clothing at a cheaper price! The champagne-drinkers of Calcutta and Bombay may pay a little more for their luxuries, but the poor throughout India will benefit.

Even with the many advantages for industrial expansion that Imperial Preference will confer on India, with the aid of the cheap capital and the skilled labour of Great Britain, it must be long years before that industrial expansion will be able to do more than touch the fringe of the vast requirements of such

a community as that which I have here described. The prospect of supplying their requirements has great attractions for every commercial community in the world ; and every encouragement to the Indian trade of such countries as Japan, Java, Germany, and Austria-Hungary, that can be devised by the enlightened Governments of those countries, in the way of protection, subsidized freights, bounties, and so forth, is always forthcoming. And yet—even apart from the political connexion, and the natural friendliness springing therefrom—there are many reasons why Britain should occupy this position towards India, if only for the purpose of aiding and stimulating the much-needed industrial expansion. English is the *lingua franca* of the country, and at this moment Bengalis talk to Tamils and Sikhs talk to Parsis or Marathas in English rather than in any other language. The education they have all received, in commercial matters as in other directions, is English in character. From Great Britain alone can be obtained

the cheap capital and the skilled labour that are the crying needs of Indian industry. It is largely to British capital and British skilled labour that India owes her splendid and always progressive system of railways and telegraphs that are the very life and soul of industry, as well as useful and convenient in every aspect of life. And when India has attained the fulness of that industrial development for which she has such unbounded capabilities, it is in the immense and wealthy markets of the British Empire that she will find her best and most useful customers.

In 1852 Lord Beaconsfield predicted that the establishment of independent fiscal systems in the British Colonies, with no Imperial Zollverein, would infallibly result in the disruption of the Empire. In 1872, speaking on June 24th at the Crystal Palace, he recalled this twenty-year-old prediction, and pointed out that it had been falsified, and the fissiparous tendency had been neutralized, for one, and one only, reason—the keen

race-loyalty of the Colonists and their ardent love for their Motherland. In India, though happily there is equally warm devotion to the person of the Emperor-King, the ties of race and kinship are necessarily absent, and consequently, if Lord Beaconsfield was right, there is all the more need that the moral, political, and material benefits of inclusion in the British Imperial system should be clearly shown. And this is only possible under a system of Imperial Preference.

## CHAPTER IV

### OBJECTIONS TO INDIAN PREFERENCE ANSWERED

THE objections that have been raised to the inclusion of India in any scheme of Imperial Preference—and that were put forward by Lord Crewe in his speeches at Cheltenham and Bournemouth—may be ranged in three broad categories. It is alleged, first, that Indian Preference will not satisfy the Indian peoples, because it will only protect their industries against foreign dumping, and not against British trade. It is also alleged, secondly, that it will not greatly benefit Indian industry or commerce, because of this British competition. And it is further alleged, thirdly, that it may provoke retaliation from those foreign nations who are India's best customers.

1. The first of these objections was stated by Lord Crewe in his speech at Cheltenham on December 4, 1912. After quoting Mr. Bonar Law's appeal to India for Imperial Preference—" If you want to put on tariffs, put them on against the rest of the world, but be a Free Trade country to us, and we will be a Free Trade country to you"—Lord Crewe solemnly declared :—

" I warn him plainly that it will be resented in India, that it is resented already, and that, if he ever seeks to put it into practice, it will be resented in a manner that will create an unprecedented strain on India's loyalty to the Empire—you will be erecting a great Imperial Zollverein, and you will be asking India 'openly and without hypocrisy' to take a place which, compared with that of those portions of the Empire which control their own purse, will appear to her to be a servile place."

Happily, the Indian Press—I believe to a man so far as the purely Indian journalists are concerned, the two exceptions being two purely English Radical newspapers—at once saw through this partisan appeal. The *Hindu* of Madras—one of the ablest and perhaps the most

influential of all the Nationalist daily journals in India—on December 19, 1912, thus commented on Lord Crewe's utterances :—

“Lord Crewe has not shown that the present position as to forced Free Trade is anything but servility, to India—the Radical Free Trader may no doubt console himself (if he can, which we doubt much) with doctrinal conformity to the principles of economics, but he cannot console himself with adhesion to the far larger political principles of freedom, of liberty to a country to protect its interests as its representatives (nay, even its foreign administration) consider necessary.”

And elsewhere in the same articles the *Hindu* observes :—

“One cannot avoid the impression that too much party capital has been made out of it [Mr. Bonar Law's appeal] by Lord Crewe in the two speeches at Cheltenham and Bournemouth. Those in India who look to the Secretary of State for a correct exposition of the Indian point of view, and for a just protection of Indian interests in the trade policy between England and India, will not find in these speeches any anxiety exhibited by Lord Crewe in this behalf.”

Precisely similar sentiments were expressed in every purely Indian journal that dealt with these speeches. Lord Crewe

at Bournemouth quoted the two English Radical papers, written by Radical Englishmen in India, that approved of his Cheltenham speech ; but he cannot quote a single purely Indian journal in that sense.

Lord Crewe must know perfectly well that every Indian editor, and every one acquainted with India—whether approving or disapproving of Imperial Preference for India—is well aware of the following simple facts :—

(a) That Imperial Preference will offer to India precisely the same amount of Protection that it offers to Great Britain—namely, the right to protect herself against the dumping foreigner, though not against the sister States of the British Empire. Where, then, comes in the “resentment” of India against Great Britain for which Lord Crewe calls ? What room is there, in those circumstances, for the offensive taunt of “ servility ” ?

(b) That the relative position of India towards Great Britain in fiscal matters, so far from being worsened by

Imperial Preference, will be greatly improved. At present, under so-called Free Trade, Great Britain taxes Indian goods far more heavily than India taxes British goods ; and India is bound down by a set of Cobdenite rules which she despises, merely because of British prejudices, especially in regard to countervailing excise duties. Under Imperial Preference India will be entirely freed from those obsolete rules, so far as her general tariff is concerned ; and whatever fiscal concessions are made by India to Great Britain, and by Great Britain to India, will *ex hypothesi* be rigorously equated by free and open negotiation between the two Governments, so that both States may be equally benefited and neither injured by any change from the *status quo*.

(c) And so, too, as regards the relative position of India towards the self-governing Dominions. Lord Crewe endeavours to arouse the envy of India against them because their fiscal systems have been built up (by Radical intrigues and against the urgent advice of Lord

Beaconsfield) on the theory of equal hostility to the Empire and to the foreigner. But the Dominions themselves have been the first to revolt against that theory, and, starting from the *status quo*, as also Great Britain and India will do, they propose that all fiscal changes to be made under Imperial Preference between the constituent States of the British Empire shall be in the way of "exemption from or reduction of duties now or hereinafter imposed." These are the very *ipsissima verba* of the Resolution of the Imperial Conference! Can Lord Crewe find here any "servility," any cause for "resentment," on the part of India?

2. The second cardinal objection to Imperial Preference urged by Cobdenites is that India will derive little or no benefit from it, by reason of British competition, which will go on as before.

The first general answer to that objection is the obvious one, that, anyhow, British competition, even in those com-

modities which are largely imported from Great Britain, will not be keener under Imperial Preference with no import duties and no excise, than it is under Cobdenism with an excise duty exactly countervailing the import duty. The relative fiscal position of Indian and British goods will be exactly the same then as it is now, whilst in regard to those commodities that are now chiefly imported from foreign countries the Indian industry will be completely protected.

But when we come to particulars the case for Imperial Preference is enormously strengthened.

For some time past there have been officers on special duty in the chief Indian provinces, charged with the task of investigating and reporting on the particular industries for which each province possesses special facilities. Mr. Chatterton has reported for the Imperial Government of India and for Madras, and has now been lent to H.H. the Maharaja of Mysore, who has most wisely established a special department for this great work.

Mr. Collen and Mr. Cumming have reported for Bengal, Mr. Gupta for Eastern Bengal and Assam, Mr. Moreland and Mr. Chatterjee for the United Provinces, and others elsewhere. And it is a most remarkable fact—and one that really destroys at one blow this Cobdenite pretence—that in the large majority of industries so reported on as suitable to be undertaken in India, the commodity to be manufactured is at present chiefly (and in some cases almost entirely) imported from countries outside the British Empire ! So that it is certain that, at any rate in these cases, Imperial Preference will give adequate protection to the nascent Indian industry.

Thus, the following industries that have only the slenderest chance of success under Cobdenism, because the commodities are dumped in overwhelming quantities from foreign countries, being aided by Protection and subsidies, will be fairly assured of a great future under Imperial Preference : sugar, cotton hosiery, coarse cotton goods, woollen shawls, steel, silk, metal-

work, enamelled ware, carpet-weaving, indigo, lac, pottery and glassware, oils from seeds, lamps, pencils, perfumes, toys. Not one of these commodities is supplied in large quantities by the United Kingdom!—and herein is ample room for Indian industrial expansion, without appreciable competition from Britain! There are also many other industries, among those specially recommended by the officials, in which the advantage of Imperial Preference in India might be to some extent shared between India and Great Britain, owing to the fact of the latter having already secured a firm footing in the import trade. Among these may be named cotton-piece goods, tobacco (including cigarettes), leather manufactures (including boots and shoes and saddlery), soap, cement, paper and pasteboard, umbrellas, varnish and paints, chemicals, dye-stuffs. Even among these last-named industries India will be better off and have a better chance than she has at present when compelled to invite her foreign protected and subsidized rivals

to the free use of her own markets. But the first list, in which Imperial Preference will give her almost monopoly terms, is quite large enough and lucrative enough to entirely relieve the existing congestion of agriculture.

Lord Crewe, in stating this particular objection to Mr. Bonar Law's proposals for Imperial Preference, obviously relies rather on the ill-informed leaflets of the Free Trade Union or the Cobden Club than on the technical knowledge of his own Anglo-Indian advisers at the India Office. So he pours contempt on Mr. Bonar Law's statement of opinion at Ashton-under-Lyne that, "so far as he could judge, the competition that the Indian cotton industry had most to fear was not that of Lancashire, but that of Japan, and perhaps that of China." On this Lord Crewe observed that "the facts are that 91.78 per cent. of the total import of cotton goods comes from Lancashire, 1.52 per cent. from Japan, and 0.5 per cent. from China." And he adds that "it is impossible to embellish these

figures," and that "as they cannot be disputed" he declares that Mr. Bonar Law is clearly shown to be in error. As a matter of fact—as the Secretary to the Indian Cotton Bureau wrote to the *Times* on January 1st—"Mr. Bonar Law's statement was absolutely and demonstrably accurate." And Lord Crewe's advisers at the India Office ought to have informed him that—except for a few medium counts, say, in the neighbourhood of 24s. to 30s.—there is absolutely no competition at all between the Lancashire fine cottons, which are practically all of the higher counts (say, 24s. and upwards), and the coarse Indian cloths. Lord Crewe ought to have known that, in the great debate of March 9, 1911, in the Viceroy's Legislative Council on the motion of the Hon. Mr. Dadabhoy to abolish the excise duty on Indian cottons, every one of the Indian members insisted on the fact that—as Mr. Dadabhoy expressed it—"these duties countervail nothing, being levied upon a class of goods wholly different and distinct from those that are imported from

the United Kingdom." The Hon. Mr. (now Sir Gangadhar) Chitnavis declared that "there never was any real competition between England and India in cotton manufacture. . . . The indigenous product is coarse, and must be so, so long as the long-staple Egyptian and American cotton is not acclimatized in India"; it is the Japanese and other foreign manufacturers who compete with the Indians both in working up the short-staple Indian cotton and in producing coarse cotton cloth. The Hon. Mr. Gokhale in the same debate declared that the tax fell on "the poorest of the poor" in India, who bought the coarse Indian fabrics and not the fine Lancashire cottons. And similarly the Hon. Sir Vithaldas Thackersey—perhaps the greatest living authority on the subject—said: "There is no competition between the imported article (from Lancashire) and the article manufactured in India; we produce in India mainly coarser goods which are consumed by the poor in the country." Mr. Dadabhoy quoted the decisive words of Sir Patrick

Playfair in 1896: "Competition on the part of Lancashire mills with the production of the coarser fabrics spun and woven in Indian mills does not exist." And every Indian-born member of the Viceroy's Legislative Council in March, 1911, asserted that this fact is absolutely undoubted.

Alike in insisting on the maintenance of the excise duty, and in asserting that the only serious competition in India is between Lancashire and Indian goods, Lord Crewe flouts and ignores Indian public opinion in the most reckless way. Most of his policy is in this direction—the "purchase of British righteousness by the sacrifice of Indian revenue," as Lord Morley wittily described his opium policy, his encouragement of sugar bounties and the sacrifice of the Indian sugar industry, the providing for defeated Liberal politicians by fat billets at the India Office. All these ways naturally attract unfavourable attention in India. And when Lord Crewe calls on Indian public opinion to "resent" Imperial Preference on the

ground that it does not give India sufficient freedom to tax the products of Lancashire, and therefore puts India in a position of servility, and when Indian publicists not unnaturally inquire whether Lord Crewe himself and the Liberal party are prepared to offer India the same or greater freedom in this direction, they are met by the arrogant assertion that Lord Crewe and the Liberal party know what is good for India's economic needs better than India herself does, and that consequently the excise duty must be maintained !

The figures of the Indian cotton trade with China and Japan quoted by the Hon. Mr. Dadabhoy in the Legislative Council on March 9, 1911, showed conclusively that—as Mr. Bonar Law said at Ashton—the competition that is really dangerous to the Indian industry comes from those countries, and not from Lancashire. For the Japanese have the benefit, not only of their rigid system of Protection but also of free silver—the latter benefit alone giving their cotton goods a clear bounty,

as Mr. Dadabhoy pointed out, of at least 3 per cent. *ad valorem*, and probably much more! And yet the one and only argument against Imperial Preference for India advanced by Lord Crewe in his speeches at Cheltenham and Bournemouth was that no Preference could be valuable to India that did not give her protection against Lancashire.

3. The last of the objections to Indian Preference stated with so much confidence by Lord Crewe, and echoed by the Radical Press, is this—that if India gives free admission to Lancashire goods and other British manufacturers, while maintaining or increasing her very moderate taxation on foreign imports from Protectionist countries, the latter may retaliate by raising their duties on their imports from India.

To this there is a general answer, and a particular or detailed answer, each equally decisive. Both these answers were stated by Sir E. F. Law, the very able Finance Minister of India, in 1903 and

1907, and subsequent events have only served to increase immensely the weight of his arguments.

The general answer is, that the tariffs of Protectionist countries are settled primarily—as the tariff of India will be under Imperial Preference—with the view of securing and encouraging their own industries. They are not in the least likely to alter those tariffs out of mere spite, or to interfere with the domestic arrangements of the British Empire, unless they see a way of benefiting those industries by a tariff war. They already tax Indian and British products up to the hilt, unless it is to the interest of their own industries to be more generous.

And the particular or detailed answer is this—that the closest and most detailed examination of the imports which each of the great Protectionist countries of the world draws from India shows that those imports consist, practically exclusively, of food or raw materials for its manufactures; and that, consequently, they are no more able to tax them than we in

Britain are able to tax the raw cotton for our cotton industry or the raw wool for our woollen manufacture.

For instance, take Japan. Out of the £8,989,106 worth of commodities she took from India in 1910-11, £8,252,294 was for raw cotton, £396,580 was for grain and pulse, £81,285 was for hides and skins for her leather industry, £38,154 was for raw jute, and £77,305 was for manures. Which of these items could she possibly tax for retaliation? Obviously not one.

Or take Germany. Out of her purchases from India in 1910-11 of £13,091,036 no less than £3,554,941 was for raw cotton, and £2,406,710 was for raw jute; £1,958,884 was for rice, £1,840,566 was for oil-seeds—which she presses, and sells us the oil at a good profit—£1,467,316 was for raw hides and skins, and the rest was for barley, bristles, corn, fodder, dyeing and tanning materials, raw hemp, manures, wheat, and so forth. Could she retaliate by taxing any one of these imports?

So for Belgium. Her purchases from India, to the amount of £7,389,369, are practically the same as those of Germany, with the addition of manganese ore for her steel industry; is she likely to increase the cost of that raw material for the sake of retaliation?

Of a precisely similar nature are the purchases from India of Austria-Hungary, France, Holland, Italy, Russia, the United States, and every other commercial nation of the world. There is not one that could by any possibility attempt to retaliate on India, except at the gravest peril to its own industries; and there is not a single one that is in the least likely to attempt the impossible task.

## CHAPTER V

### A SCHEME OF INDIAN PREFERENCE, WITH PRECEDENTS

IN considering (1) the advisability of Imperial Preference between India and the United Kingdom, and (2) the *modus operandi* wherebv it may be carried into effect if deemed aavisable, we naturally look for precedents to guide us. And it fortunately happens that two great and recent precedents exist, in which all the conditions are almost identical with those of the Indian problem. Those precedents are (1) the Agreement concluded between Canada and the West Indies as the result of Lord Balfour of Burleigh's Royal Commission of 1910, and (2) the Aldrich-Payne Tariff Act of the United States of 1909, establishing preferential trade rela-

tions between the United States and the Philippine Islands.

The Royal Commission on Trade Relations between Canada and the West Indies took its origin in a Minute of the Canadian Privy Council on a Report of the Finance Minister of Canada, dated August 31, 1908; in which he pointed out that ever since 1898 Canada had extended the benefits of the British Preferential Tariff to the British West India Colonies, but had received no reciprocal benefits, though it was known that some of the West India Islands desired to reciprocate. The Committee of the Canadian Privy Council prayed for a Royal Commission to inquire into this anomaly, and, happily, Mr. Asquith and Lord Crewe (then Secretary of State for the Colonies) consented. The Commission was appointed, with Lord Balfour of Burleigh for its Chairman, Sir John Dickson-Poynder (now Lord Islington), Mr. Fielding (Canadian Minister of Finance), Mr. Paterson (Canadian Minister of Customs), Sir Daniel Morris, K.C.M.G. (formerly Imperial Commis-

sioner of Agriculture for the West Indies) as members. This powerful body of able and experienced men conducted an exhaustive series of inquiries into the subject in Ottawa, in the various West India Islands, and in London ; and in August, 1910, they presented a Report that was unanimous and that is universally admitted to be a monument of wise and painstaking research. This Report, and the separate Memorandum drawn up by Lord Islington after his appointment as Governor of New Zealand, are a veritable mine of facts and arguments to support (by analogy) Imperial Preference between India and the rest of the British Empire.

The Report shows that the preference granted by Canada to British Empire products—aided by the Brussels Convention of 1903, the Canadian surtax on German importations, the strong and substantial preference given by the United States to their own Dependencies of Porto Rico, Cuba, and the Philippines, and the increase in the Canadian consumption of sugar—had raised the Canadian imports

of West Indian sugar from an average of less than 11,000 tons per annum during the years from 1897 to 1903 to no less than 133,000 tons in 1909! And now the trade is growing at a still more rapid rate.

Here is a striking contrast to the fate of the Indian sugar industry under Cobdenism. There was a time when India furnished half the sugar of the world and exported enormous quantities. Now her export trade has vanished, hundreds of thousands of acres of sugar-cane have gone out of cultivation, and she imports from Protectionist countries sugar to the value of at least six or seven millions sterling per annum! Java and Japan, like Mauritius, have the enormous advantage over India of free silver; and they have also the fullest protection, while India is defenceless. The imports of sugar from Java alone have increased from less than £10,000 in 1888-9 to £5,500,000 sterling in 1910-11! That is how trade can be built up by a vigorous Protectionist

country, when it has to deal with an unfortunate land like India, under the heel of fossilized Cobdenism !

The Commissioners frankly declare that, both in the West Indies and in Canada, " the grant of a reciprocal Preference is the only policy which is at all likely to command any measure of approval."

The Report deals very faithfully with the favourite contention of the Cobdenites that if the sister States of the British Empire choose to give each other Preference, the foreigner may retaliate, though his own import duties are far higher than ours are likely to be. The Commissioners say :—

" Our visit to the West Indies occurred at a time when the commercial public were watching with much interest the tariff movements in the United States. The American tariff had recently been revised, and a provision had been inserted to the effect that in the case of the products of any country unduly discriminating against the United States a maximum duty of 25 per cent. *ad valorem* over and above the general tariff should be applied on and after April 1, 1910. While the desire for closer relations with Canada was quite general throughout the West Indies, it was in some of the islands tempered by a fear

that the making of any preferential arrangement between that country and the West Indies might be regarded by the United States as undue discrimination, and thus subject West Indian products, on entry into the United States, to the penalty of the maximum tariff. The trade between the Colonies and the United States being considerable, it was not surprising that there should be this anxiety as to the tariff to be applied to their products. There does not seem, however, to be any need for alarm on this account. It may now be regarded as a settled principle that trade arrangements between parts of the British Empire are to be considered matters of a domestic character, which cannot be regarded as discriminatory by any foreign power. The question seems to have received some consideration in connection with the negotiations which recently took place between the Governments of the United States and Canada respecting discriminatory tariff arrangements, and it is worthy of note, as appears from the report of the negotiations given to the Canadian Parliament by the Minister of Finance, that the United States did not treat the Canadian preferential tariff as an undue discrimination. It follows that the granting of a preference by the West Indies to any part of the British Empire could not be so regarded. This is indeed the logical conclusion to be drawn from the fiscal arrangements of other Powers, including the United States themselves, with different parts of their own possessions."

The Commission was somewhat handicapped in some of the islands by the grossly unfair and unconscionable stipulation imposed on the Colonies by Mr.

Asquith's Government, that any mutual tariff concessions should be automatically extended to the United Kingdom without any reciprocity whatever ! The fact, however, that these hard and greedy conditions were generally accepted may be regarded as proof of the warmth with which the adhesion of the Homeland to a general Preferential system will be received in India and the Colonies. As the Commissioners well observe :—

“It is generally recognized that the power of the United Kingdom is their security against aggression, and that the wealth of the United Kingdom is the guarantee of their credit.”

In the case of India, to these considerations may be added the further one—often insisted on by such representative Indians as Mr. Justice Ranade, Mr. Gokhale, and others—that for the expansion and development of Indian industries the cheap capital and the skilled technical labour of Great Britain are absolutely essential. And it is for this reason that, in the debate in the Governor-General's Council of March 17, 1913, the

Hon. Sir G. Chitnavis and the other Indian leaders wisely substituted a demand for Imperial Preference, in place of the impossible demand for unrestricted Protection that they had formerly put forward.

The Commission pointed out that, when once the principle of Imperial Preference has been decided on, there remain, for each State of the Empire, the important questions :—

- (a) The selection of the goods on which a Preference may be granted.
- (b) The amount of that Preference.
- (c) The method of effecting the Preference.

These questions the Commissioners proceeded to discuss with the authorities and the traders on the spot in each one of the Colonies—and their procedure may well be the guide for similar inquiries in India.

But a simpler and more direct precedent for Imperial Preference between the United Kingdom and India is that which is afforded by the Payne-Aldrich Tariff

Act of 1909 in the United States, that established, between that country and her great Eastern dependency, the Philippine Islands, mutual Free Trade (with some very slight exceptions), together with Protection against the rest of the world—much as Mr. Bonar Law proposes for the United Kingdom and India.

The British Consul-General in the Philippines thus reported on the Act in 1909:—

“Under this Act all goods (except rice) which are the growth, product, or manufacture of the United States are admitted into the Philippine Islands free of duty, provided that—

1. No drawback of customs duty has been allowed.
2. That they are shipped direct in one bottom, not even transhipment under through bill of lading being allowed. Direct shipment, however, includes transit in bond through Canada or Mexico.
3. That a proper certificate of origin be produced for each shipment.

Similarly (with the exception of rice) all goods the growth, product, or manufacture of the Philippine Islands are admitted free of duty into the United States, provided that—

1. In any one year the number of cigars is limited to 150,000,000; the wrapper tobacco and filler tobacco, when mixed with more than 15 per cent. of wrapper tobacco, to 300,000 lb.; the filler tobacco

to 1,000,000 lb.; and sugar to 300,000 gross tons.

2. Not more than 20 per cent. of the value of manufactured articles to consist of foreign materials.

3. The same provisions as to shipment as in No. 2 above."

Apart from this system of mutual Free Trade, the protection to be obtained by the Motherland and the dependency (as well as their duties imposed for revenue purposes) against the rest of the world is settled, of course, each for itself, by the two Governments respectively. The Philippine Islands have an export duty on a very valuable monopoly of the country, Manila hemp, and the consequence of this export duty being remitted on consignment to the United States has been that a splendid export trade in cordage, &c., has been secured for the latter country—an object-lesson in regard to the great monopoly of India, raw jute.

And the general results of this Preferential Agreement between the United States and her great Eastern colony are vividly set forth in the British Consular Report on the Philippines for the year

1910 (Annual Series, No. 4810, November, 1911). We learn that:—

“The result has been to place the United States, both as a seller and a buyer, in a predominant and unassailable position at *the head of the trade*. Increases, however, have not been confined to the United States. The trade [of the Philippines], both import and export, with foreign countries also shows improvement over the previous year. . . . Apart from the United States, there was also a considerable increase of imports from other countries, notably the United Kingdom, Germany, France, Spain, and Switzerland. . . . Exports show a total increase of £1,188,360.”

Dealing with the trade between the Motherland and the colony after the establishment of Preference, our British Consular Report declares that the increase was “enormous.”

In the incomplete portion of the year 1909, following on Preference, the imports into the colony from the United States had increased by £279,895, and the exports in the reverse direction had increased by £890,783—stated to be “under practically all the more important headings.” For the year 1910, the increases were so remarkable that our

Consular Report gives a table of the more important lines—showing an increase in the import of “cotton cloths” from £149,197 to £631,141, and nearly all the other leading imports more than doubled!

It seems from all this that the United Kingdom and India ought eagerly to follow the example set us by Canada and the West Indies on the one side and by the United States and the Philippines on the other. From them it may be gathered that the broad principle laid down by Mr. Bonar Law was absolutely right—an ideal to be aimed at of free trade between the two countries so far as may be compatible with revenue considerations and mutual convenience, with a moderate amount of protection against alien inroads. The details, both as to revenue and convenience and as to protection, must, of course, be settled in consultation between the British Chancellor of the Exchequer and the Indian Finance Minister, aided by the army of experts that will doubtless be called in

by each to assist him with their advice. But in India, the speeches and writings of such men as Mr. Gokhale, the late Mr. Justice Ranade, Sir G. Chitnavis, Mr. Dadabhoy, Sir Vithaldas Thackersey, the late Sir Edward Law, and Sir Guy Fleetwood Wilson—and in England, the reports of the Tariff Commission—have already furnished us with much information as to the lines on which the Preferential Agreement must proceed.

For instance, in March, 1910, when the Government proposed to raise some new revenue by a tax on the import of silver, a tax that beyond all question increases the handicap of Indian trade in the Far East, the Hon. Mr. Gokhale offered some suggestions for alternative taxation which seem to be of high value, and have since been very generally adopted by Indian economists. The chief of these were an import duty on sugar and export duties on raw jute, and perhaps on raw hides and skins, and on oil-seeds. With due differentiation—*i.e.*, the exemption of goods imported from, or

exported to, British ports—these duties proposed by Mr. Gokhale have much to recommend them.

The export duty on raw jute was also recommended by the Bengal National Chamber of Commerce—a purely Indian body, not to be confused with the Bengal Chamber, which is European, and almost cosmopolitan, in its composition—for the purpose of enabling the Government of India to protect Indian trade from Japanese encroachment.

A moderate duty on raw jute, commensurate with the import duties on the manufactured product that is successfully imposed by every one of the great industrial nations of the world, would alone produce revenue sufficient to recoup the Indian Treasury for the remission of the excise duty on Indian cotton goods and the import duties on British manufactures. Such a duty would not be sufficient to bring in any competing fibres in the world; and as the Protectionist industrial nations must have this or similar fibres for their manufactures, every penny of it

would be paid by the foreigner. And it is not necessary to point out that it would give to the jute industries of Dundee and Calcutta the command of the jute markets of the world.

Incidentally, it would also give the cotton industries of Lancashire, south-west Scotland, and Western India—by reason of the remission of the Indian taxation on their products, while the taxation of the foreign products remains—the command of the cotton market of India. And inasmuch as over 90 per cent. of the imports will be relieved of the  $3\frac{1}{2}$  per cent. duty with which they are now burdened, it is obvious that the 315,000,000 of Indian consumers of cotton cloth will have their clothing (the only imported necessary of life for the vast majority) cheapened by very nearly the whole amount of the duty now imposed.

It may, then, I think, be taken for granted that this export duty on raw jute suggested by Mr. Gokhale and the Bengal National Chamber will be an important

feature of any scheme of Imperial Preference.

Precisely the same consideration would invite an export duty on lac, when exported to countries outside the British Empire; and also, in a somewhat modified degree, smaller export duties on oil-seeds and raw skins and hides. These would obviously result in the establishment in India, on a secure commercial footing, of a great oil-pressing industry, a great tanning and leather industry, and many other enterprises. And in these advantages the United Kingdom and the Dominions would share on an equal footing.

Then again, to take Mr. Gokhale's other suggestion—an import duty on sugar. Surely, if ever any indigenous industry in this world cried aloud for the consideration of the Government, it is the Indian sugar industry. Mr. Noël Paton, in his official monograph on "Sugar," has shown that this vast industry—that formerly covered the whole country, that enriched the cultivators in every province

in India, that paid the rent and the canal revenue, that at one time supplied half the sugar of the world, that has every conceivable natural advantage in India as its original cradle, if only natural laws had not been overridden by those of the Cobden Club—has been absolutely crushed by the competition of foreign sugar, sometimes fed by enormous bounties, and always bolstered up by huge protective duties and subsidies, and (in the cases of Java and Japan and Formosa) by the vast bounty of free silver. So that now India, instead of selling great quantities of sugar to other countries, is compelled every year to pay away some £9,000,000 sterling for the supply of sugar for her own consumption, and of this, some £7,000,000 sterling goes to Protectionist countries outside the British Empire, countries that exclude British and Indian goods as strictly as heavy tariffs can exclude them. The debate in the Governor-General's Legislative Council on the motion of the Hon. Pandit Madan Mohan Malaviya on

March 9, 1911, and that on March 17, 1913, are sufficient to show that the demand for this import duty is not only a most reasonable one, but also is supported by the solid public opinion of India. It would alone produce revenue sufficient to enable the Government of India to remit other taxation, and at the same time to carry out much-needed reforms. It would revivify the whole agricultural life of the country, and secure the Government's land and canal revenue. And yet, because it is urged by the peoples of India, and not by the Cobden Club, it is rejected by the Liberal Party! Moreover, seeing that the imported commodity is of a finer quality than that consumed by the vast bulk of the population, such a tax could in no way be stigmatized as a food tax—and the competition of the untaxed imports from the British producers of Mauritius and the Straits Settlements would always be sufficient to prevent any excessive enhancement of the cost of even the finest sugars. And as India would, like the

West Indies, Mauritius, and Queensland, obtain free or preferential entry to the markets of the United Kingdom and the Colonies, we might confidently expect that, with the resuscitation of her home sugar industry, she would soon reconstruct that great export trade of which Cobdenism has robbed her.

Similarly, an import duty on foreign cotton goods will give the Indian industry a fair field in the competition with those coarse cotton goods which are now dumped on her as the surplusage of such protected countries as Japan and Germany—while the relation of her industry to the British cotton industry will be practically unchanged, both being then untaxed, as both are equally taxed at present. The change will enable India to recover her lost ground in Japan and China, while both the Lancashire and the Indian industries will have a fairer chance in competing with the protected foreigner in the Indian market.

India imports every year matches from foreign Protectionist countries to the value

of about half a million sterling, and from British sources only to the value of a few thousand pounds. She possesses greater facilities for the manufacture in her vast forest reserves than any other country in the world, and only within the last few months the Maharaja of Travancore, in a spirit of wise patriotism, has granted to an indigenous company, not only ample land for a factory but also a preferential right of cutting the suitable wood in the State forests. But without import duties indigenous enterprise cannot stand up against the organized and protected Japanese, Scandinavian, and Austrian industries. At this very moment Sweden and Norway are combining to subsidize a direct line of steamers between Christiania and Bombay, mainly for this valuable trade. The Rao Bahadur Raja Ram Rao says, in the *Wednesday Review* of Trichinopoly of February 26, 1913 :—

“ There are any number of industries that can be thus helped—in fact, as Mr. O’Conor once said, there is not an industry which cannot be

maintained in India if a 10 per cent. protective duty is levied. And friends in England and India owe it to us to secure to us that fiscal independence which alone would prove our economic salvation."

And if with this the preferential proposals of Sir Gangadhar Chitnavis be adopted, there will be some chance for such industries as those of Messrs. Bryant and May.

The great Tata Steelworks, now starting in Bengal, require similar help in their earliest stages. And so for all the other industries noted above—oil-pressing, metal-work, enamelled ware, pottery and glass-ware, cotton hosiery, coarse cotton goods, jute goods, woollen shawls, silk, lamps, pencils, and many more—all these may come in the not distant future.

Here, then, we can see suggestions in rough form for a system of preferential trading that will in time fulfil that most legitimate aspiration of every patriotic Indian, the industrial expansion of the country. The excise duties will flee away as a bad dream, and Indian industries will be protected from foreign inroads by

moderate import duties, while British goods will be admitted free or at preferential rates, preventing such enhancement of prices as would injure the Indian consumer, and the United Kingdom will reciprocate to the same extent. Later we may investigate more closely the benefits to India and the United Kingdom respectively that will flow from this adoption of modern and more logical fiscal methods.

## CHAPTER VI

### INDIAN PREFERENCE IN RELATION TO THE LANCASHIRE AND OTHER BRITISH INDUSTRIES

THE fiscal controversy in Great Britain has been greatly obscured by the intervention of vast numbers of worthy and well-meaning people who, having read a few chapters of Ricardo or John Stuart Mill, think they know all about the economics of international trade. But it is not so in India. Most of the men who speak on this question in the Governor-General's Legislative Council, or in similar assemblies in India, have received a sound University training in these subjects and know what they are talking about. An impartial observer, Mr. Higginson, tells us in his *Tariffs at Work* that in the United States and in Canada

“at the American Universities nearly every student of economics is interested in the tariff,” and so it is in India. It is, therefore, of the highest importance to observe that the leaders of educated Indian public opinion have at last slowly and gradually come to the conclusion that, all things considered, the best chance for the future of Indian industrial expansion is to be found in a system of friendly co-operation with the cheap capital and the skilled labour of Great Britain, rather than in a spirit of hostility and exclusiveness. In other words—as the debate in the Governor-General’s Council of March 17, 1913, shows—they see that, for a country of vast resources, as yet very partially developed, it is a very great advantage to form part, and a very important part, of a great commercial federation in which industrial development has already been carried to a very high standard of perfection.

The converse proposition—that a close commercial and industrial alliance with the huge undeveloped States of the Empire is

the one thing needful for the United Kingdom—ought to be still more evident to British statesmen. Now that India has come into line with the self-governing Colonies on this question, this alliance is offered to us by all; and nothing but the most amazing perversity and shortsightedness can induce us to listen to the bigotry of the Cobden Club and consider the well-being of the “poor foreigner” rather than consult our own commercial interests.

As a mere matter of business, which every experienced business man can well understand, even without any scientific training, just consider the enormous advantages offered by Indian Preference to the cotton industry of Lancashire over the conditions now obtaining.

The one argument seriously advanced by Free Traders in support of the existing conditions is, that Lancashire still has so large a share of the Indian cotton trade that it is not worth our while to try to improve it. That seems to be a rather unbusinesslike proposition in any

case. It is quite true that the Indian market for piece goods is so vast that the danger of dumping is reduced to a minimum, and we had so firmly established our position in that vast market before the era of Free Trade that successful competition must long be almost impossible. But in the smaller and more vulnerable lines we are rapidly being beaten by protected competitors. For instance, in cotton hosiery at this moment Japan does an Indian trade fifteen times as large as ours, and Germany more than double ! So also in "other cotton manufactures" the protected countries already sell to India more than we do ! And now we are spontaneously offered a Preference, together with our Indian fellow-subjects, over these protected countries which would undoubtedly stop this sagging of trade, and we refuse it to please the Cobden Club !

At present Lancashire cotton goods pay  $3\frac{1}{2}$  per cent. *ad valorem* on landing at Bombay or any other Indian port—exactly the same as the highly protected and sub-

sidized Japanese and German goods, although the latter start with a big advantage over us. It is true that the products of Indian mills are even more severely handicapped by the  $3\frac{1}{2}$  per cent. excise duty which has to be paid on their cloths, whether sold or unsold ; but this is the reverse of an advantage to the British goods, for it creates a great prejudice in the Indian mind against British goods, which are held responsible for this cruel hardship. As Sir Gangadhar Chittnavis truly said, in his fine speech in Council, on March 17, 1913 : " In a word, we are not only not allowed by England to protect ourselves against her—which is intelligible perhaps—but we are not allowed by England to protect ourselves against foreign countries ! "

But under Imperial Preference both British and Indian cotton goods would be relieved from this burdensome and vexatious payment, while the Japanese and German and other protected goods would continue to pay an import duty calculated so as to countervail the unfair advantages

they have derived from their own fiscal system.

Can any business man doubt for a moment that this would greatly stimulate the Lancashire and Bombay industry? And unless Lord Crewe would sooner see the trade in the hands of foreigners, it is difficult to understand on what grounds he can object to this proposal. The arrangement will obviously be immensely gratifying to our Indian fellow-subjects, for the producers among them would (like the Lancashire producers) get a little more profit than now out of every yard of cloth sold ; while the consumers would get their clothes a little cheaper, for all taxation would be remitted on the Lancashire, Scottish, and Indian goods that constitute more than 90 per cent. of their supplies. It has already been shown that the import and export duties suggested would far more than recoup the Indian revenue for the remission of the duties on the Indian and British goods ; so that Lord Crewe's ingenuity will be taxed to discover any possible objection to this carrying out of Mr.

Bonar Law's proposals. Every one knows that, without some such measures, the Far Eastern cotton trade must soon be lost, both to Britain and to India ; and every honest observer of Indian affairs feels that it must ere long be impossible for us to impose on India the trammels by which alone our trade there can be maintained under a Free Trade system. Will not Liberals learn this lesson before it is too late ?

Or take a younger industry, the jute, in Great Britain mainly carried on at Dundee. Dundee men first discovered the value of jute as a fibre, and for some years their factories supplied the world. The operation of natural causes brought in Calcutta, lying close to the only source of jute supplies in the whole world, to share in the prosperity of Dundee. The use of jute goods has expanded throughout the world by gigantic leaps and bounds ; but Cobdenism has robbed both Dundee and Calcutta of their fair share of the immense increment of trade ; and at this moment of raw jute to the value of

£13,000,000 sterling that is exported from Bengal only £3,000,000 worth is worked up in Great Britain, the balance being exported, either directly or through British ports, to be worked up by the lucky artisans of foreign protected nations!

Now, the self-governing Colonies are on the whole the greatest and most progressive consumers in the world of the coarser products of jute manufacture, for they are used in the transport of their crops. It is obvious that Imperial Preference is alone sufficient to give Dundee and Calcutta the absolute control of this great trade. And with regard to the jute trade in foreign countries, the Indian export duty on raw jute (being remitted on supplies sent to British ports) will not only countervail the unfair advantages now enjoyed by the mills of Protectionist countries, but will also enable the Governments of the United Kingdom and India to negotiate better terms in every market of the world, both for Dundee and for Calcutta, than they can ever hope to obtain under our present Cobdenite régime.

The circumstances are more or less the same with a large number of other existing British industries and potential Indian industries, whose progress is now cramped and starved by Cobdenism.

There was a time when Yorkshire supplied a large proportion of the woollen goods used in India. But now of woollen yarn and knitting-wool Germany supplies to India about seven times as much as we do ! Every one knows that woollen shawls are an important item in the clothing of the middle and upper classes in India, being used both by men and by women ; and of these Germany now sends to India more than six times our export ! Why should this be ? We buy far more raw wool from India than Germany buys, and it would be difficult to name any natural advantage for the manufacture that Germany possesses over us. But Cobdenism overrides all natural laws, and gives the advantage to the foreigner in spite of them all. Under a rational system of Preference Yorkshire will again obtain her natural share of the Indian trade.

The same with the steel and iron trades. Why should Belgium and Germany send to India about eight times the amount of steel bars that we send? Why should the same countries send to India about four times the value of iron bars that we send? In hardware why should Austria send to India seven times as much enamelled iron-ware as we send?

Or, again, in glass and glassware, why should Austria and Germany supply the bulk of India's needs? Or in matches, why should Japan and Austria send to India about twenty times as much as we send?

And the same questions might be asked in regard to a large number of other British industries; and the only possible answer in every case is, that we are hopelessly handicapped by our worship of the fetish of Cobdenism. Formerly, in all these branches of Indian trade we were absolutely pre-eminent; now we are practically nowhere.

The precedent that has been quoted of the results of the establishment of prefer-

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ential trading between the United States and the Philippines shows clearly enough that, as the circumstances are practically almost identical, we have only to do as the Americans did in 1909, and all these British industries will at once jump into a new life of activity. And we shall have the further satisfaction of observing, as the Americans have seen in the Philippines, that Preference is always doubly blessed: the benefit to Indian industry will be as great as to British industry.

## CHAPTER VII

### THE VALUE OF PREFERENCE TO INDIAN INDUSTRY, COMMERCE, AND FINANCE

WE are now in a position to recapitulate—to offer a somewhat fuller and more detailed view than has yet been attained of the definite and undeniable advantages to India that must result from the adoption of Imperial Preference—and to contrast those advantages with the disadvantages of the existing fiscal system as disclosed in Chapter II.

The *Times* of April 21, 1913, very opportunely and very properly drew attention to the complexity and the grave importance of many of the aspects of the general question as they affect India.

The object of these pages is, not to lay down any dogma but to elicit discussion from those who have personal

knowledge of the facts of Indian industry, commerce, and finance, and also to supply, to those who do not possess that personal knowledge, such information as has been acquired by the author from a lifelong study of the subject in India and in England. This will enable a reasoned judgment to be formed on the general question of an Indian Preferential Tariff—and to facilitate such a discussion being carried on without confusing the various issues, each point in this chapter is numbered.

1. In the first place, it is universally admitted that India urgently needs industrial expansion, to relieve the congested agricultural industry, and to develop the immense latent resources of the country. It is also clear that no such expansion can take place on any adequate scale, so long as every "infant industry" is liable to be overwhelmed by the dumping from highly organized protected and subsidized commercial communities such as those of Japan and Germany.

Only a few weeks ago (in February, 1913) it was officially announced that—

"The Japanese Government have decided to send a commission to India to investigate the possibility of developing trade in Japanese cotton hosiery, underwear, matches, porcelain, and silk fabrics."

Now, Japan already holds nearly the whole of the Indian trade in cotton hosiery and underwear, having ousted both Indian and British trade, and caused the stoppage of factories in Bombay; she shares with Austria, Sweden, and Norway the vast trade in matches, having ousted British trade; she almost monopolizes the silk piece-goods trade, selling (in 1911) 16,613,906 yards to a British sale of 307,593 yards; and she has more than doubled her Indian sales of porcelain and earthenware during the last five years! And yet the Japanese Government is not content with these successes of her subjects in competing for the command of the trade of India—she is planning further triumphs for them.

And how is she doing it? The Statis-

tical Secretary to the Free Trade Association told us—though, of course, not in so many words. In a letter to the *Times* of September, 1910, on the new Japanese Tariff that has subsequently become law, this eminent Cobdenite bewailed the “scant courtesy which the framers of the new tariff have shown to a political ally, and an ally that keeps its ports open to the free entry of Japanese goods!” He did not understand, what the Japanese Minister had carefully explained to Sir Edward Grey, that the important point to Japan is, not whether British and Indian ports are open to Japanese trade, but that they are equally open to the trade of every country, whether they tax our trade 200 per cent. (as Russia does in some lines) or admit them free. So, if Japan were to make the same concession to us that she makes, say, to Germany, she gets nothing in return from us, but would have to give more to Germany, seeing that the value of the concession to Germany is diminished *pro tanto* by the fact of its being shared by us.

In this way every Indian industry is at the mercy of Japan, or any other ~~Pro~~-tectionist country, so long as it is in an "infant" or struggling condition, under the present Free Trade *régime*. Japan has only got to protect and subsidize her own industry so as to undersell British imports and Indian products in India, and she captures the Indian market—and when the Indian factories have closed (as in the hosiery trade) and the British imports have ceased, then Japan can do as she likes. And in those circumstances—as an important native Indian merchant says in Mr. Cumming's *Review of the Industrial Position in Bengal*, presented to Government in 1908—"It is much easier to make money by an agency in imported goods than by investment in industrial enterprise."

Naturally, patriotic Indians feel that this is an intolerable state of affairs, and indignantly demand a remedy. They are all aware—as we are all aware—that under a Free Trade *régime* no remedy is possible. Many of them, undoubtedly,

would prefer the drastic measure of complete Protection—against British goods as well as against dumped foreign goods. But the best Indian opinion, as shown in the speech of Sir Gangadhar Chitnavis in the Imperial Council of March 17th, sees that this would mend some evils by creating others, as pointed out in the speech of Sir Guy Fleetwood Wilson in the same debate; for instance, it would seriously increase the cost of the cotton clothing of the Indian millions, whereas we have shown in Chapter V that Imperial Preference will appreciably diminish that cost.

And at any rate, this much is admitted by the most extreme Protectionists—that Imperial Preference will give full and adequate protection to all those Indian industries whose place in the Indian market is now firmly held by the dumping foreigner—of which a long list was given above, in Chapter IV, page 57.

For instance, experience teaches us that the sugar industry, that most valuable and most ill-used of all Indian industries,

answers immediately to the turn of the tariff—and it has been shown in Chapter V that that industry, which used to be important in nearly every district in India, which used to help largely in providing the land and canal revenue to the Government, and which used to export a considerable proportion of the supply of the world, has now been ruined by Protectionist dumping, so that India pays away £9,000,000 sterling every year for her own supply. It is quite certain that a moderate import duty would both yield a considerable revenue, and resuscitate this valuable industry in every part of India. The *Hindu*, of Madras—perhaps the most influential of Indian Nationalist dailies—in its issue of April 10, 1913, quotes the opinion of Mr. G. N. Sahasrabudhe, the sugar expert of Bombay, that the import duties can easily be so arranged as actually to cheapen the cost of the commonest raw sugar when used as a food, without any sacrifice of revenue. The elected representatives of the Indian people demand

the imposition of this duty—and this is undoubtedly one of the first benefits that would be conferred by Imperial Preference.

So with the duties recommended by the Hon. Mr. Gokhale, named in Chapter V ; they would immediately result in the growth and development of a great oil-pressing industry, and also of a great tanning and leather industry.

The investigations of the Hon. Sir Vithaldas Thackersey have demonstrated the extraordinary magnitude of the match trade in India, now in the hands of the Japanese, Austrians, and Scandinavians, and also that every raw material for it exists in India in profusion. Imperial Preference would immediately create herefrom a huge and lucrative industry.

We have seen in Chapter VI how a preferential export duty on raw jute and on lac would supply an ample revenue without diminishing the foreign export. It would also secure the Calcutta and Dundee industries in every part of the world, and especially in the Colonies, and it could

be used to obtain better trading terms in the Far East for the coarse jute and cotton goods made in Indian mills. Combined with a suitable duty on the import of foreign silk, cotton, woollen, and jute manufactures, the result will undoubtedly be a large expansion of textile industries in India as well as in Great Britain.

Similarly, a duty on foreign tobacco, combined with a preference within the Empire, will at once build up a vast Indian tobacco industry that has hitherto been starved. The United Planters' Association have told us by their resolutions what great things can be done for tea, coffee, indigo, cocoa, rubber, and similar agricultural industries in India by the adoption of Imperial Preference. But its best and most far-reaching effects will probably be in the creation and extension of a large number of miscellaneous mill industries, to work up the vast stores of raw materials that are now produced only to be exported to be worked up by foreign artisans.

Here, then, we see that Imperial Preference will immediately usher in a new

era of industrial expansion and prosperity for India.

2. It is almost universally admitted that the odious and inquisitorial excise duty on the products of Indian cotton-mills, so universally hated in India, ought to be abolished, simultaneously with the remission of taxation on the imports of British goods. It is certain that this cannot be done under a Free Trade régime, save under the penalty of depleting the Indian revenue and giving over Indian industry as a prey to foreign dumping by remitting the taxation on foreign imports at the same time.

Imperial Preference will not only confer this boon on India, the immediate abolition of the excise duty, but it will also give a free hand to the Finance Minister, such as he has never hitherto possessed, to tax the imports from and the exports to foreign countries as may seem best in the interests of India herself, without fear of being arraigned in the Imperial Parliament, as in the case of the tobacco duties of 1910,

or in that of the duties on bounty-fed sugar in 1899.

3. It has been shown in the last chapter, beyond all possibility of dispute, that Imperial Preference will substantially cheapen the clothing of the whole of the 315,000,000 of the Indian peoples; for all taxation on the products of Indian cotton-mills, and on the imports of Lancashire and other British cotton goods, will be remitted, and more than 90 per cent. of the Indian consumption of cotton goods is comprised within these two categories. This hard, undeniable fact alone is sufficient, in the opinion of many great Indian authorities, to justify Imperial Preference from the Indian point of view.

And in this connection it is well for the English reader to be reminded that the cotton clothing thus to be cheapened by Imperial Preference is absolutely the only item in the family budget of the poor Indian *raiyat*, save only his land revenue and his salt (which also may be reduced,

and cannot be increased, by Preference), that is at all affected by taxation. He does not drink alcoholic liquors ; and if he smokes, he very probably grows his tobacco, as he grows his food and condiments, on his land, on which also he constructs his little shanty.

4. The inclusion of India within an Empire system of Preferential tariffs offers the Government of India its only possible chance of obtaining better terms for Indian commerce from the various Protectionist countries of the world, who are year by year raising higher and higher their tariff walls. It may be admitted that this benefit is one that is more for the future, when Indian exports will again consist largely of manufactured goods, than for the present time, when Indian exports are mainly food and raw material that are objects of keen desire on the part of all the industrial nations of the world.

But even now the continually increasing Japanese tariff—as shown by the petition of the Bengal National Chamber of Com-

merce, and by the speeches of many members of the Governor-General's Legislative Council—has almost fatally injured the Indian export trade, not only to Japan and Korea and Formosa, but also to China and the Far East generally, in such commodities as gunny-bags, yarns, and so forth. We have seen (page 24) that the Indian coffee industry has been used as a pawn in the negotiations between France and Brazil. And, as Sir G. Chitnavis aptly observed, in his speech of March 17th:—

“We have to bear the 100 per cent. tax on our tea exports to Austria and France, and the 246 per cent. tax on the same commodity in Russia, and our coffee and our tobacco are equally heavily taxed. In a word, we are not only not allowed by England to protect ourselves against her—which is intelligible, perhaps—but we are not allowed by England to protect ourselves against foreign countries.”

And this British Cobdenite folly has undoubtedly been the cause of the ever-increasing ill-treatment accorded to Indian goods by the foreigner. As Dr. Richard Schuller puts it in the *Zeitschrift für*

*Volkswirtschaft, Sozialpolitik und Verwaltung* :—

“The circumstance that no reprisals were to be feared from Great Britain has constituted the strongest support of the exaggeratedly high Protectionist policy prevailing in many States. It is natural, and it is a fact that all States increase their import duties upon precisely those goods which they import principally from England, because no reprisals are to be feared from that direction. . . .

No commercial politician can contest the fact that, in consequence of their positive customs policy, Germany and other States exercise an incomparably greater influence upon the conformation of foreign tariffs affecting their exports than is exercised by Great Britain, whose influence in this respect is equal to zero !”

It was Lord Beaconsfield who first pointed out the immense power for tariff negotiation that would be possessed by the union of India with Great Britain. In opposing Ricardo’s motion for free imports, Disraeli insisted on the fact that free imports would certainly invite more hostile tariffs, and urged the necessity for commercial treaties. And he declared that in the negotiation of such treaties—

“The Minister of England who negotiated was placed in a much more favourable position

than the Minister of any other country. He could say what the Minister of no other country could say : he could say to the President of the United States, with his hostile tariff : 'There is a country belonging to the Queen of England that, if necessary, can produce illimitable quantities of that cotton which you boast so much.' He could say to St. Petersburg : 'That very same country, within three months, in 1843, has sent ships to the port of London with cargoes of flax, hemp, and tallow' ; and without sending a special mission to Brazil, without the expense of the mission or the mortification of failure, he could tell the Brazilian Minister : 'That very same country in one of its valleys produces sugar enough to feed the whole world, and in another district produces coffee superior to that of the Brazils.' These were facts the knowledge of which was not confined within the walls of the House of Commons ; they were continually referred to in the political and economical dissertation in Europe ; there was not a statesman in Russia or America that was not frightened at the available resources of India."

This proud Imperial boast is even more true at this day than it was when uttered by Lord Beaconsfield. Even if British Cobdenites are so infatuated as to reject its teaching for the United Kingdom, can they in fairness refuse the demand of Sir G. Chitnavis that India shall be allowed this power of Reciprocity?

5. All the precedents—the establish-

ment of mutual preference between the United States and the Philippines, between France and Madagascar, between Portugal and Angola and Mozambique, between Canada and the West Indies—have shown that mutual Preference has resulted, not only in an immense increase of trade between the contracting parties but also in a corresponding increase in foreign trade owing to the increase of purchasing power, and consequently in a great increase of revenue.

In India these results are likely to be even more marked than elsewhere; for we have seen that hitherto the Indian Finance Minister has been cruelly circumscribed in his search for sources of revenue by the inexorable dogmas of Cobdenism. In 1910 these restrictions were painfully apparent; for the Finance Minister declared that if he were debarred from such *quasi-protective* taxation as the import duty on tobacco there would remain no Free Trade alternative save such oppressive measures as the increase of the salt duty or the land revenue.

With the removal of those Cobdenite trammels the Finance Minister will enjoy the unwonted freedom of choice between a large number of taxes to be paid mainly or entirely by the foreigner, of which the export duties on raw jute and lac (see page 80) suggested by the Hon. Mr. Gokhale may be taken as examples. With a thoroughly scientific tariff—a tariff framed by experts in such a way as to raise an ample revenue without oppression—the tables might be turned, and import and export duties paid mainly by the foreigner might enable the Government of India to lighten the burden of taxation in the salt duties and the land revenue. Is not this an object worthy of being followed?

6. The advocates of Cobdenism for India never take account of the way in which Indian commerce would be affected by any great European war. At this moment three-fourths of the vast export trade of India is to foreign countries, and an ever-increasing proportion of her whole

trade is with countries outside the British Empire. It is obvious that a war involving the great European Powers, whether we were involved in it or not, would cause an immediate stoppage of much of this commerce. On the other hand, so long as we have command of the sea, the inter-Imperial trade of India will be secure. Now, the establishment of Imperial Preference—though we hold that it will not sensibly diminish the foreign trade of India—will certainly largely increase her inter-Imperial trade, both absolutely, and relatively to the extra-Imperial trade. In present circumstances, any great European war would be absolutely ruinous to Indian commerce; and from this point of view no scheme of insurance can be so valuable as Imperial Preference.

7. In this connexion it is important to observe, also, that Imperial Preference, and the consequent immense expansion of Indian exports to Britain and the Colonies, will greatly benefit Indian finance. For India is a great debtor country—to the

tune of something like 30 millions sterling per annum. But the whole of that debt is, practically, to the United Kingdom, largely consisting of the interest on the vast sums of capital that have been lent to India by English capitalists for her railways, her public debt, her mines, her mills, and her other industrial enterprises, at rates and on terms far easier than any obtainable elsewhere. Surely it is obvious to the meanest intelligence that those obligations are most cheaply liquidated by direct shipments of produce from Calcutta or Bombay to London, rather than by shipments of raw material to Hamburg or Havre, and subsequent shipments of manufactured goods from Germany or France to England, after paying the wages and the profits of innumerable German and French middlemen on the way. Moreover, under the former arrangement, the Empire gets the full benefit of the Hamiltonian "double bargain"; India gets the profit on the sale and Britain gets the profit on the purchase, and both profits are kept within the Empire.

Of course, it does not matter one rap to the Indian merchant as an individual whether his cargoes go to London or to Marseilles ; all that concerns him as an individual is the amount and security of the profit, and this fact has rather tended to obscure his appreciation of the true economics of the transaction. But to the community—that is, to the Empire at large—the difference is highly important on the face of it, and for this reason, if for no other, the Government of India in general, and the Finance Minister in particular, ought warmly to favour Imperial Preference.

It has been shown that the United Kingdom alone works up more raw material of all kinds than the whole of that which is exported from India to all countries ; and there seems to be no valid reason why we should not be customers of India to a far larger extent than we are at present. Take, for instance, the Indian export of oil-seeds, totalling in 1911 about £16,500,000 sterling, of which about £12,000,000 went to foreign

countries. Of oil-seeds Great Britain buys from the foreigner (in addition to what we buy from India and other British possessions) to the annual value of £9,385,000. And *à propos* of this gigantic Indian export of oil-seeds we may quote a most instructive sentence from the report of Sir Edward Law, late Indian Finance Minister. He says (Blue Book, Cd. 1,931, p. 15) :—

“ I may mention that Germany used to import large quantities of linseed oil from London, but the course of trade was artificially changed by the imposition of a [German] import duty on the oil, and now Germany imports the seed (from India) at a trifling rate of duty (probably under 2 per cent.), and exports the oil to London, which receives it free of duty.”

Now, that quotation from Sir Edward Law’s Report shows exactly how India pays her debts to England under the existing fiscal system. She pays us, it is true, with the oil which the German factories have expressed from the seeds she has exported for this purpose; and in order to do this in a manner that is agreeable to the antiquated prejudices of the free

foreign importers she is compelled to export perhaps double the amount of seeds equivalent to the oil—certainly a far larger quantity than that equivalent, for those seeds have not only to provide the oil to pay the debt to England, but also the wages of thousands of German working-men who have handled the seeds in landing them in Hamburg or Bremen, in taking them to the factories, in the various processes in the manufacture of the oil, in dealing with the cake (which goes to enrich German soil), in putting the oil on board the Hamburg or Bremen steamers for England, and so forth. The Indian seeds will also, to please the Free Traders, be compelled to pay the profits of numerous German merchants, both for import and for export, as well as the salaries of their clerks and establishments, and also, probably, the German shipowners and sailors. This is, obviously and undeniably, what happens under our present fiscal system. Under Imperial Preference all these absurdities will disappear.

8. The late Sir Edward Fitzgerald Law, when Finance Minister of India, pointed out that in the matter of freights and shipping alone, as well as in other directions, there would be an immense gain to India if a wide expansion of her industries enabled her to export manufactured goods to a larger extent than at present. For, of course, the raw materials are far heavier and more bulky than their equivalents in manufactured goods ; and, moreover, there is inconvenience and extra cost in the fact that all the imported cargoes are of these light and easily stowed manufactured goods, while the cargoes to be exported are of the heavy and bulky raw materials.

9. The late Sir Charles Elliott—the author of the famous Report of the first Famine Commission, and perhaps the greatest authority on the economics of Indian industry and commerce that has ever lived—joined Mr. Chamberlain's Tariff Reform Commission on his retirement from India. And he did so, mainly

with the object of showing that Imperial Preference for Indian wheat—even if only by a nominal British duty of 2s. a quarter on foreign wheat—would provide the only real insurance against Indian famines that India can obtain. To Sir Edward Buck and Sir Charles Elliott belongs the credit of having been the first to indicate the enormous advantages that would accrue to the whole of India by such a famine insurance as this. There are many millions of acres of good wheat-growing land in the Punjab and the Upper Provinces lying idle—cultivable but uncultivated—that only await the irrigation-canal and the plough. The moment that the stimulus is applied to this industry of an assured preference of 2s. a quarter in the boundless markets of the United Kingdom, we shall see a rapid extension of irrigation, and large tracts of this cultivable land brought under the plough, giving employment to whole armies of cultivators at present landless in the congested districts of over-population. Now, the wheat crop

grown under irrigation is not subject, even in the dry zone, to the droughts that play havoc with our other crops and that cause our Indian famines. In ordinary years, when the supplies of our other food grains in India are plentiful, these wheat crops would find a ready and secured market in England, enriching the whole country. In famine years a very slight rise in the general prices would keep part of these wheat crops in India, their place in the British market being temporarily taken, at a slight increase in price, by colonial or foreign wheat. In India they would form a famine supply, exactly as and when they might be needed; and by a sort of sliding scale they would serve to regulate the price of food of the people; in times of slight scarcity only a part of the crop would be diverted from its ordinary destination by the automatic action of the rise in price of other food grains, while in the dread event of real famine the whole of these huge supplies would be available almost on the spot, to keep the people alive.

Mr. G. A. Natesan's *Indian Review*—the most influential and most scholarly of all the Indian monthly magazines—in its issue for March, 1913, has the following significant paragraph on the supply of Indian wheat for the United Kingdom :—

“Wheat is one of the most important crops in India, both as food for the people and as an article of export. It may surprise many people to know that, despite the enormous exports annually dispatched from Karachi, nearly 90 per cent. of the wheat grown in India is consumed in the country, and only about 10 per cent. is exported. The present yield of wheat in India is about 44,000,000 quarters, or about 17,000,000 quarters in excess of the total imports of wheat and wheat-flour into Great Britain. In the Punjab alone there is cultivable waste sufficient to produce 16,000,000 quarters, besides enormous tracts in Burma and other parts of India only requiring irrigation and population to bring them under the plough. If India had, by preferential treatment with regard to foreign wheat, the inducement of a steady and certain market to grow Indian wheat, there can be no doubt that the cheap labour and low railway rates prevailing in India would enable her to supply England with all the wheat she requires at rates lower than those at which foreign nations now supply her.”

This purely Indian statement affords a remarkable confirmation of the expert

opinions of Sir Charles Elliott and Sir Edward Buck—and all that the Cobdenites have to oppose to this mass of evidence is simply the admittedly mendacious figment of the “big and little loaf!”

## CHAPTER VIII

### INDIAN DIGNITY AND IMPERIAL SOLIDARITY

SIR GANGADHAR CHITNAVIS showed a fine sense of statesmanship, as well as a grand Imperial patriotism, when he wound up his speech in the Imperial Council on March 17, 1913, by declaring that, if India adopted a system of Imperial Preference with the United Kingdom and the Colonies, the "conveniences of life" which she imports will be as easily accessible to all as hitherto, only "more of them will come from countries with which we are so closely connected—and that is all!"

India does not really wish to purchase her "conveniences of life" from the dumping Japanese and the Dutchmen of

Java, rather than from the United Kingdom and the Colonies, for choice. She is awaking to the consciousness of her proud position as the largest and one of the most important constituent States of the Empire; and if Cobdenism will only be reasonable, and allow us to traffic on fair terms of mutual benefit, she has the same sentiment as Canada and Australia and New Zealand and South Africa, and would prefer to deal with "countries with which we are so closely connected." Like Canada in her great Election, so India now refuses to allow the Cobden Club to thrust her out of the Imperial sisterhood.

And again, Sir Gangadhar showed a fine appreciation of India's true dignity when he said: "A Customs Union with the Colonies will gradually secure for us there a better and more dignified position than we now have." He remembered that when a great and respected Indian statesman like the Hon. Mr. Gokhale went to South Africa in person, to plead the cause of his less fortunately situated

fellow-countrymen, he was not only courteously received, but was able to break down much of that stupid barrier of prejudice that had formerly been raised against our British Indian fellow-subjects.

It was the late Sir Edward Sassoon, M.P., the able and popular Member for Hythe, who spoke with a large personal and inherited knowledge of Indian commercial life, who was never weary of pointing out to his fellow-countrymen (as Sir Gangadhar Chitnavis now does) that the inclusion of India in a great Empire scheme of commercial Preference will involve an important recognition of the status of India as a Sovereign State ruled by the King-Emperor. Within that great Union none will any longer be regarded as "foreigners." At present, when British goods are landed in India beside Japanese or Dutch goods, Cobdenism insists that India shall treat all those goods as the property of the foreigner and tax them equally. And similarly, when Indian goods are landed in England, Cobdenism does not allow them to be treated as

Scottish or Irish goods are treated—they must be taxed as “foreign.”

As was nobly said by Sir Gangadhar Chitnavis in the great debate of March 17, “There are other advantages to be reaped from Imperial Preference, of which I need but mention one—the solidarity of the Empire.” Preference will insist on the solidarity of the Empire, and on the equal citizenship of every man, woman, and child that has inherited that privilege.

Into the Imperial Commercial Federation of the British Empire, India will enter as a Sovereign State, under her own Emperor and Government, on absolutely equal terms with every other member of that Federation. She will be entitled, and will be able, to secure for her subjects that honourable treatment and consideration for her own peoples in every other of the States of the Federation which is already theirs by birthright in India and the United Kingdom. She will be entitled, and will be able, to secure for her merchants and producers and manufacturers every privilege, and

every franchise, enjoyed by their fellows in the United Kingdom, in Australia, in Canada, in South Africa, in New Zealand. As Sir Edward Sassoon acutely observed, it will raise the international status of India in a way that no other measure could raise it. These may be sentimental considerations, but the strength of the feeling that has been aroused by the unfair and improper treatment of British Indians in the Transvaal, and by similar questions elsewhere, shows clearly enough that these considerations are of infinite importance where national self-respect is concerned. And, however this may be, it has been shown that in its solid material advantages to the progress and prosperity of the Indian peoples, equally with these less tangible but not less important or far-reaching moral benefits, the cause of Imperial Preference is one that should command the earnest support of every well-wisher of India.



## APPENDIX

SPEECHES OF THE HON. SIR GANGADHAR CHITNAVIS, K.C.I.E., AND THE HON. SIR GUY FLEETWOOD WILSON, G.C.I.E., K.C.B., K.C.M.G., IN THE LEGISLATIVE COUNCIL OF THE GOVERNOR-GENERAL OF INDIA, MARCH 17, 1913.

(From the "Gazette of India," March 29, 1913.)

THE HON. SIR GANGADHAR CHITNAVIS said :—

'That this Council recommends to the Governor-General in Council the desirability, in view of the loss of opium revenue, of considering financial measures for strengthening the resources of the Government, with special reference to the possibility of increasing the revenue under a system of preferential tariffs with the United Kingdom and the Colonies.'

"Such a motion in a year of abounding prosperity requires a word of explanation. The Revised Estimate shows an improvement in our revenue of over six million pounds sterling (£6,191,000), to which the opium revenue and the railway receipts have principally contributed. A superficial examination of the Financial Statement discloses no need to discuss possible additions to the resources of Government. I may be asked what urges me to these Cassandra-like prophecies of the approaching demise of a revenue which has just shown such unexpected signs of vitality. I reply, Sir, that though our opium revenue has died

hard, it is none the less dead. The position, therefore, is this : The opium policy of Great Britain has driven a huge breach in our finances. In the ensuing year, we have managed to maintain equilibrium between income and expenditure ; but we cannot expect to maintain it for long. Not even our largest sources of revenue—land revenue and excise—could be expanded sufficiently to make up a deficit of  $5\frac{1}{2}$  crores, which may be taken as our normal opium revenue in the days before the commencement of the policy of suppression. These sources, too, are utterly unstable. They depend on the seasons and the rainfall to such an extent that the Hon. Finance Member will allow me to remind him, he has himself described the Indian Budget as a gamble in rain. We cannot forego this revenue altogether. India is a country not yet fully developed, and we require all our resources for our growing needs, if for no other purpose. There is only one course open, namely, fresh taxation. Taxation has its limits, and a wise Government will only impose fresh taxes with great caution and in a manner as little burdensome to the people as possible. None the less, fresh taxation will soon be inevitable, and in my view it is advisable to face the fact and consider the remedy at once. The task of filling up the void in our resources left by the loss of opium revenue is one which will heavily tax the skill of some future Finance Member, if he is to avoid laying too great a burden on the people. Sir, I am anxious that a sound principle of additional taxation should be settled in advance, and that in the process it is the Finance Member who should be heavily taxed. That is my justification for moving this Resolution.

"The Hon. Finance Member has said, 'Should financial trouble come on her India is prepared to meet it—*L'India fara da se.*' Sir, India cordially responds to this adaptation of Cavour's spirited retort on a memorable occasion in Italian history. India is self-reliant, as she has always been, but she must also be free to utilize her resources solely for the promotion of her own interests. Give her fiscal autonomy, and she can brave any danger. Give her that, Sir, and she will cheerfully forgo her just claim on the Home Government for the heavy loss entailed on us by their opium policy. But of this question of compensation on another occasion. The issue I now ask Hon. Members to consider is, What should be the form of additional taxation, should such taxation become necessary? On this point I hold strong opinions. I will not have any additional tax except on the manufactured goods imported into India, and that, too, either as a protective duty or as an impost under a system of preferential tariffs.

"Sir, I have said more than once that protection is a necessity to us. We have infant industries to protect. Granted even that, as Free Traders assert, we lose wealth thereby, yet wealth is not the only thing that nations desire. France and Germany have to be 'protected,' so as to become self-sufficient, lest they become economically dependent on a possible foe. We want protection because we have to find employment for our people and to foster our growing industries. We shall, possibly, incur loss for the time being thereby, but we shall gain those benefits in exchange. The true question is not whether Free Trade or Protection is the most profitable policy, but whether the benefit that we expect to get from Protection

is worth the price that we shall pay for it. I contend it is. But our hands are tied. Britain, which maintains Free Trade because, and *only* because, she can afford Free Trade because of her geographical position, will not allow us to adopt a protective tariff. Even a 5 per cent. *ad valorem* duty on our imports of cotton goods, imposed purely for revenue purposes, was resented in Lancashire ; we know with what results. Yet this 5 per cent. duty alone would yield us 2 crores of rupees, and would by itself go far to place Government once for all above want. Not only that ; we cannot even retaliate upon foreign nations. We have to bear the 100 per cent. tax on our tea exports in Austria and France and the 246 per cent. tax on the same commodity in Russia. Our coffee and our tobacco are equally heavily taxed. In a word, we are not only not allowed by England to protect ourselves against *her*—which is intelligible perhaps—but we are not allowed by England to protect ourselves against foreign countries. And that, Sir, I maintain is neither intelligible nor fair. Therefore it is that we want fiscal autonomy, as I have said. But we may as well recognize frankly the facts that we shall not get it for the mere asking, and that the grant of it will be perhaps for years outside the sphere of practical politics. In the absence of complete freedom of action in the settlement of our tariff, a protective tariff is equally unattainable. An alternative scheme is, however, available, which might be more acceptable to England, namely, a system of preferential tariffs as provided in the Resolution.

“ Sir, the British Empire is indebted to Mr. Chamberlain for this new gospel of inter-Empire preferential tariffs. The idea may not

be absolutely original, in view of the fact that the German Zollverein, or customs union among the different units of the German Empire, was formed so far back as 1834, but for the British Empire it is entirely new. Since 1902, when the Colonial Prime Ministers at their Conference in England adopted a Resolution in favour of Preferential Tariffs, English economic opinion has undergone a great change, and, notwithstanding the recent temporary set-back in the movement due to the exigencies of party politics, Tariff Reformers are a power in England. The idea has caught on. It is bound to develop in England, flanked as it is by a Protectionist Europe on one side and a Protectionist United States on the other. India has so far not been admitted, so to speak, to the confederacy, but in any rational scheme of preference she cannot be ignored. It behoves us now to claim our legitimate place. In this matter at least, I hope, ours will not be a cry in the wilderness.

“Sir, the Government have gone fully into this question of preferential tariffs in their relation to India before this. In their published dispatch to the Secretary of State, 22nd October, 1903, they subjected it to careful analysis, and in their considered opinion, I must admit, India could not ‘expect very material advantages in the Imperial market by any measure which appears to be within the range of discussion.’ The foundation of this conclusion was the absence of proper data, as will appear from the following observation in paragraph 15 of the dispatch. The dispatch says :—

‘We cannot feel confident that the conditions and requirements of foreign industries have yet been ascertained with the precision and fulness necessary to make them a

sufficiently broad and stable basis on which to rest a fiscal policy of very problematical value to India, whilst the consequences of failure might result in irreparable disaster.'

"At the same time Sir Edward Law, after an elaborate examination of the conditions of our sea-borne trade, in his minute, held :—

'I feel sufficiently confident that with the great majority of the countries with which we trade, and as regards the very great bulk of our exports of raw material, we are not only in a safe position, but we could even afford, in certain instances, ourselves to assume the aggressive by going so far as to impose duties on the exportation of produce they require for their industries.'

And further :—

'In my opinion it might be difficult to show that a preferential trade would prove directly prejudicial to Indian interests.'

"In my humble opinion, an analysis of the subsequent history of our sea-borne trade will only confirm this last conclusion. The last ten years have brought into greater relief the circumstances noted by Sir Edward Law. 'The position of India is, more to-day than ever before, 'one of considerable defensive strength.' On this point, I will not weary the Council with many figures. In 1910-11, for which we have complete statistics, our imports were valued at 129½ crores, of which 40 crores came from foreign countries. In 1906-7 the foreign imports amounted only to under 28 crores ; so that in five years there was an increase of 45 per cent. Our exports in 1910-11 were nearly 206 crores, of which over 118 crores went to foreign countries. At first sight these figures would seem to show that our position in waging a tariff war with foreign countries would be weak. We could only tax

40 crores of their goods, while they could retaliate on 118 crores of ours. But our exports are of a totally different kind to theirs. Much the greater part of our exports consists of raw materials of all kinds which the foreigner requires for his manufacturing industries and dare not tax too heavily lest he should damage those industries. Not only so, but as regards some of our exports, jute, for instance, India is practically a monopolist ; and the foreigner, if he wants these goods, *must* buy from us. As regards the rest, the cheapness of Indian produce gives us an advantage in any market, and makes it difficult for any other country that produces the same materials to compete with us. Consequently, it is only a minor part of our exports that is taxable in any tariff. On the other hand, the bulk of foreign imports consists of manufactured goods, which we could tax without loss to ourselves, and in some cases, when we produce the same goods, with actual benefit to our industries. The chances of retaliation on the part of foreign countries are remote, for it would hurt them more than it would us. I submit that Government has been somewhat unnecessarily nervous in this matter. A more detailed examination of statistics will but strengthen my argument.

“ Let us briefly investigate our position in relation to some of the chief foreign countries concerned. China must be left out of account. Customs duties have been settled by treaty with that country till at least 1922. But take Austria-Hungary. All our exports—consisting of raw cotton, rice, raw hides and skins, raw jute and seeds—except rice, are duty free, because they are required for local industries ; whereas our imports consist of manufactures, the most important being sugar,

glassware, apparel, cotton goods, and hardware. Except wheat, in which there is competition, our exports to Belgium are 'untaxable.' Raw cotton, rice, raw jute, myrobalams, hemp, are exports which Belgium will find it difficult to do without. But without much inconvenience to herself India could tax heavily Belgian cotton goods and glassware, and even Belgian steel and iron. Preference shown to the United Kingdom and the Colonies in this matter of steel and iron will benefit them considerably, and might ultimately create a diversion of the trade in their favour. France levies an import duty of 97 per cent. upon Indian coffee, and a duty of 46 per cent. upon Indian wheat. This last duty cannot be enhanced without fatal effects upon the semolina industry of Marseilles for which Indian wheat is alone suited. The heavy duty upon coffee has not prevented so far the normal growth of our export trade in that commodity. In 1902-03 the value of coffee exported to France was something over £200,000, and on the average of the last seven years it is £301,000. Seeds, raw jute, and raw cotton, which account, on the average, for £5,852,000 of the Indian exports to that country, are from their nature untaxable. Besides, oilseeds are wanted for the oil industry of Marseilles. French retaliation is not, therefore, a serious factor in the question of preferential tariffs. The most important Indian export to Holland is rice (an average of £1,024,000 a year), but it has all the advantages of a raw material. On the European Continent rice is not wanted for edible purposes (except in the Balkan Peninsula), and is imported for breweries. Germany, apart from Great Britain, is India's chief customer, and the same advantages mentioned in the case of the other coun-

tries assure to Indian exports a ready market there. So many German industries depend upon the Indian supply of raw material that a violently aggressive attitude towards India on her part is practically impossible. Germany is anxious for the development of her industries, and the anxiety is reflected in her tariff. Any serious disturbance of that tariff is unthinkable. Our imports from Italy are not of serious importance, but heavy import duties on Italian marble, cotton goods, and silk goods could be imposed without fear of our expulsion by retaliation from the Italian market ; for our exports consist of raw cotton, raw hides, raw jute, and seeds. An import duty of 7 per cent. is now imposed upon the raw cotton without much injurious effect, the average of the last seven years being £1,986,000. A heavier duty will only curtail her own supply of raw material. The United States of America purchase on the average £2,243,000 of our raw hides and skins, £1,336,000 of raw jute, £3,859,000 of jute goods, £233,000 of tanned hides and skins, £247,000 of seeds, and £809,000 of lac. There is a 20 per cent. duty upon tanned skins. The heavy taxation of jute goods and tanned hides could be effectively checked by the imposition of a heavy export duty upon raw jute and hides and the consequential stoppage of the supply. Japan imports from India, duty free, raw cotton (£6,191,000), rice (£730,000), jute goods (£114,000), tanned hides (£53,000), and manures (£56,000). She would suffer from the imposition of heavy customs duties upon these, as the raw materials, except rice, are wanted for her industries ; whilst we could tax her silk goods, cotton goods, matches, and apparel with great advantage.

“These facts, Sir, show forcibly that India has nothing to fear from retaliation if she should put a protective or heavy tariff on foreign imports ; she is strong enough to wage a tariff war with wellnigh anybody. But it may be asked, ‘Even if this be true, what has India to gain by a scheme of Imperial preference? Her exports to the United Kingdom, for instance, are much smaller than her imports thence ; she will have to give a preference in a great many things, and receive a preference in a very few.’ Sir, I admit the premises, but I deny the conclusion. It is true that we ask for very little—favourable terms for our cotton goods, our sugar, our tea, tobacco, and coffee ; and it is true that we can give a great deal. But I maintain that this is not a question to be treated in the spirit of a petty huckster lamenting over a one-sided bargain. There are likewise other advantages to be reaped from Imperial Preference, of which I need but mention one as an instance—the solidarity of the Empire. And I also maintain that our position is *not* a weak one. If we ask but a little and are able to give much in return, it should make it incumbent upon the other parties in the bargain to accord us better treatment. A customs union with the Colonies would gradually secure for us there a better and more dignified position than we now have. Besides, what may seem little to other people may mean to us a great deal.

“As for the results, I can foresee none to make us pause. There will be no inconvenience to the poorer consuming classes. The conveniences of life which we so largely import will be as easily accessible to all as now ; more of them will come from the United Kingdom

and the Colonies, and that is all. These countries will have in that case to see to and wish for our greater prosperity in return. There will be no danger of a diminution in India's favourable balance of trade, so vital to a debtor country ; for her total volume of exports will not be affected to any extent, and a mere diversion of them from foreign countries to the Empire cannot damage Indian interests. But for complete success we want fiscal autonomy in this scheme also.

“ It is superfluous to add, Sir, that a scheme of preferential tariffs with the United Kingdom and the Colonies presupposes the introduction in India of a tariff on the imports of these countries coupled with a heavier tariff on the goods of foreign countries, which latter tariff may or may not be protective in character. The basic idea is, of course, protection, but the system differs from a pure protective tariff in that the units of the Empire act in concert to obtain protection against the rest of the world. Individual national existence is subordinated to corporate existence, and will lead in time to a great federated Empire. India should move in the matter of trade with the other units of the Empire, and should be linked up in that great federation.

“ Sir, it is possible to detect flaws in any general scheme of preference. Such a scheme is so complicated, so vast, that nothing is easier. But let us not lose sight of the wood for the trees. Moreover, ‘ needs must when deficits drive,’ and the financial needs of Government force it on our serious consideration. Additional taxation, in all human probability, is inevitable. Here is a direction in which money can be raised in sufficient quantity, and a method which will not only be productive of

revenue but stimulating to industry. Government cannot sit quietly in view of the danger to their resources. A policy of *laissez-faire* is ineffective ; action, determined action, is necessary. My position is this : The best way out of our difficulty is the adoption of a protective tariff, and, failing that, of a system of preferential tariffs with the rest of the Empire. If sufficient fiscal freedom for these purposes is refused us, I claim the liberty at all events to put on such duties on foreign imports as will give us the revenue we need *now*, which, at a later date, can be worked into a scheme of preferential tariffs if the chance arises. One or other of these courses we must follow if we are to remain financially solvent. And I advocate the second, as both practicable, beneficial, and expedient. Sir, with these remarks I commend the Resolution to Hon. Members for acceptance."

After some discussion, the HON. SIR GUY FLEETWOOD WILSON said :—

" 1. The resolution which the Hon. Member has moved with much ability is frankly directed at increasing the revenue of India from indirect taxation. Whether a preferential tariff, if logically carried out, would have the effect of increasing our net revenue, is an open question, and I must add that I do not feel sufficiently despondent about the future to assume that, even with the loss of the opium revenue, a large addition to the taxation receipts of India will be found necessary. If bad times should come—and it would be foolish to ignore the fact that they may come—the loss of the opium revenue will undoubtedly be severely felt. But there is much room for the development of India's other resources, and it has yet to be shown that there is no room for further

economies in our administration. I have been blamed for imposing taxes for which the immediate reason did not appear to have been foreseen by my critics. I might, if I were so disposed, point to this very resolution as my supreme justification. I have no wish, however, to enter into controversy to-day, and I would only suggest for the consideration of the Council that I leave the resources of India on a stronger and a sounder foundation than when the opium danger was first on the horizon, and that, when temporary difficulties arise, there may be other and preferable methods of dealing with them than by further additions to the indirect taxation of this country.

" 2. On this point it is needless for me to insist further. It is needless, mainly because the real purpose of the present resolution is to open the discussion of a matter which we are all agreed may at any time become of the most vital importance to India's financial and economic position. I would rather, therefore, look at the spirit than at the letter of the resolution, and come at once to a dispassionate consideration of the great and far-reaching issues which the Hon. Member's proposal has raised.

" 3. I preface my remarks by saying that the pressure attributable to recent events has made it impossible for me to bring up to date or, indeed, to verify the figures I shall use, but I am fairly certain that any modifications in regard to them which might have to be made would not affect my conclusions.

" 4. Also before dealing with the main question, I desire to make our position clear, and to state what our attitude is, and, indeed, must be.

" Although the Government of India are not in a position and do not now desire to declare

a policy of their own, they do not think it right to resist a reasonable discussion of the tariff problem in India.

" At the same time, I would say in regard to myself that I should have been very glad not to have had to discuss this subject at all. Since, however, the question has been brought to the forefront, it becomes my duty to the King's Government, and it is also consistent with my own convictions, to place the objections to Protection to the forefront.

" 5. In this country we are fortunately not driven to consider this or any other question from the standpoint of party politics. I think this Council, representing public opinion, may fairly claim that it approaches the consideration of all matters affecting India exclusively from the standpoint of what is best for India, and that it is able to do so, not so much because our political structure eliminates the party element, but rather because Indian public men, although they differ so greatly in race, religion, and interests, have hitherto shown themselves desirous of merging their personal opinions and inclinations in a combined and general effort to advance the welfare of their country.

" 6. This happy condition of affairs admits of India giving full, temperate, and what I may term academic, consideration to a subject which is, unfortunately, so often dealt with elsewhere in a spirit of acrimonious controversy. The subject is one which in the public interest calls for consideration, not recrimination.

" 7. It is my wish, and it is my duty, to disclaim any attempt at anything approaching a pronouncement of policy. In the first place the issue is not in being, and in the second place, any policy which may at some future date commend itself to India will obviously

have to be governed by the policy which obtains in England. In this connection I ask you to consider with me the economic relation of India to the Empire.

### ECONOMIC RELATION OF INDIA TO THE EMPIRE.

“ 8. The striking feature of the present economic relations of India is the predominance of the United Kingdom over any other external country both in regard to import and export trade. Of the import trade of India the United Kingdom holds 49 out of 72 millions sterling ; of the export trade the United Kingdom holds 32 out of 123 millions. Fully half of the import trade consists of cotton piece goods from Lancashire. In regard to the other half of the import trade, the figures show that, so far, successful competition in India on the part of foreign countries has not been carried far.

“ 9. Investments in India by external countries show a still greater British preponderance. According to the calculations of Sir George Paish, taking public issues only, the United Kingdom had no less than £365,400,000 invested in India and Ceylon in 1910. To this must be added the large but undiscoverable figure of British money invested through private channels. No other country has financial interests in India at all comparable with those of the United Kingdom.

“ 10. Indian native industries cover a wider field than is generally supposed, but relative to the resources and population of India they are small in volume and have not in recent years shown much increase. If we take into account the slow rate at which economic

changes take place, the greatness of the interests affected, and the political, financial, and constitutional relations between India and the United Kingdom, it is clear that the development of India in the future must be dependent on, and primarily affected by, the policy pursued by the British Empire as a whole and particularly by the United Kingdom.

" 11. But changes not dissimilar in character from those which may be observed in other parts of the British Empire have taken place in the last twenty-five years in the character and direction of Indian trade. Modern methods of production have extended throughout the world ; not only Western countries like the United States and Germany, but the Far East and Japan have enormously increased their productive power, and external markets for their goods have become a vital necessity to the stability and progress of their trade. India has been not unaffected by this development. The preponderance of the United Kingdom in India, as in other parts of the Empire, is still great, but it is diminishing. In the last twenty-five years the share of the British Empire in the import trade of India has fallen from 91 to  $70\frac{1}{2}$  per cent., while the share of foreign countries, chiefly Germany, Belgium, and Austria-Hungary, has increased from 9 to  $29\frac{1}{2}$  per cent. Moreover, the United Kingdom has ceased to be the chief external market for Indian products. The United Kingdom proportion has fallen in the same period while the proportion of foreign countries, chiefly Germany and the United States and France, has increased. Time has not admitted of my working out the percentages. Even if allowance is made for the growth of direct trade, by diversion from the United Kingdom to

foreign countries in this period, this general statement is still true. On the figures, relating as they do to a considerable period of time, it may be assumed that the competition of foreign and Western countries for the Indian market will increase and that the proportions of trade will, under present conditions, show a steady movement in the direction indicated.

“ 12. But there is one important factor to be considered in regard to India which is of nothing like the same importance in regard to any other market in the British Empire, and that is the development of Japan. Japan has entered fully into the economic methods of the West. The new Japanese tariff shows all the leading features of that fiscal policy which has been employed with such effect in the development of the trade and resources of Germany and of the United States and other Western countries. But Japan enters this new field of commercial statesmanship under conditions very different from those of the West in regard to her nearness to the Indian market, the quantity and cheapness of the labour she can employ, and the facility with which she can imitate the products which have hitherto found favour in Far Eastern markets, and adapt her methods of production to their needs. Competition in the Far East itself for the Indian market is, therefore, certain to be of a very formidable character, and if China follows Japan in the adoption of Western economic methods, the effect on the balance and adjustment of Indian trade might be incalculably great.

“ 13. So far I have been stating facts which are accessible to any student of contemporary economics, and I have refrained from drawing any inferences from them whatsoever. But

I have no wish to shut my eyes to the irresistible inference which they arouse in certain minds. The school of thought which regards the days of Free Trade as numbered would take my facts as clear evidence that the duty of India, as part of the British Empire, is to build up for itself a tariff wall which will check those threatened diversions of our trade. If Germany and the United States, they will say, have already seized, and if Japan and China are going to seize, upon an ever increasing share in our trade, is it not our obvious duty to readjust our schedule of import customs in such a manner as will check those tendencies and place our market more freely, instead of less freely, at the disposal of our own Empire? Incidentally, they add, will not arrangements of this nature operate to protect and foster the nascent industries of India?

#### PROTECTION.

“ 14. The Indian Protectionist movement has undoubtedly, to a certain extent, been encouraged by the agitation in favour of Protection which has for some years been carried on—so far without practical success—by a section of the community in the United Kingdom. With that great controversy in its broader aspects it is not my place or my intention to deal. But you will remember that the agitation for Protection is linked with a policy of Imperial Preference—a matter which is of considerable interest to India.

“ 15. I have been at some pains to discover the proposals advocated under the term Tariff Reform so far as they concern the trade relations of the Mother Country with India. So far as I have been able to learn, the refer-

ences to this subject have been as yet too vague and indecisive for much to be deduced from them.

“ 16. The ‘Speakers’ Handbook’ of the Tariff Reform League propounds preferential proposals with regard to India in a paragraph (page 185) which, whatever other opinions may be expressed about them, is certainly concise and intelligible. It is as follows:—

‘Preference would mean to India that the United Kingdom and the Colonies would give freer entry to Indian tea, coffee, sugar, wheat, and all Indian staple products, and it would mean to us that the Indian import duty on a large number of British manufactures would be either abolished or reduced.’

“ I make no comment upon it, except to invite attention to the last portion of it, which must be of intense interest to all of us, and especially to those who are imbued with the spirit of Protection for our industries.

“ 17. The broad question of whether Protection would work to the general economic advantage of India or not is deserving of careful consideration, as the issue may at some future time be forced to the forefront.

“ 18. One object of tariff Protection is presumably the ‘encouragement’ of domestic industry, and it is effected by the imposition of customs duties on imported goods for the express purpose of prohibiting, or at any rate restricting, the imports of such goods as are similar to, or may be substituted for, goods manufactured or produced in a given country.

“ 19. The means whereby Protection works, and the method in which it is intended to work, is by raising home prices. If you do not raise home prices as a result of restricting foreign competition, you can hardly ‘en-

courage' industry; if you succeed in 'encouraging' industry by a tariff, it can only, I think, be by raising home prices. That is an axiom on which all economists appear to be agreed.

" 20. Now, any such artificial increase in home prices which Protection ensures, and by which it operates, may lay a grievous burden on the shoulders of our population. In some countries where Protection has been established the evils of this inevitable result have indeed been mitigated by natural or artificial circumstances unconnected with tariffs. Thus the natural wealth and vast mineral and agricultural productiveness of the United States, and the inventiveness and energy of their inhabitants, have enabled them for many years to bear a tariff burden under which other communities must have succumbed. The energy, thrift, and enterprise of the population of Germany, and the rigid discipline under which they are schooled, have had a somewhat similar result in that country. But even in Germany and America the revolt against Protection has been growing in recent years, and appears to incline towards a movement away from Protection.

" 21. I mention these instances to show that the introduction of Protection into a country is not universally and necessarily followed by disaster. But the natural and economic conditions which prevail in India are what we have to consider. In other words, what results would Protection produce for her? We have here an enormous population of the very poor; and however limited their physical requirements may be, the cheapness of the things they need is essential to their very existence. Can it be denied that artificially produced dearness would be injurious to the well-being of a great

majority of the people of this country? And if we are told that Protection will increase wages so as to compensate the wage-earner for the rise in prices, we must remember that by far the largest proportion of the working Indian population is engaged in agriculture.

“ 22. Assuming that Protection would lead to a general increase in the wages of our manufacturing industries, what would be the effect on the rest of the population, who are to a large extent merely consumers? Where are the increased wages to come from which are to enable them to face with equanimity any artificial increase in the cost of living?

“ 23. Agriculture is not in the main, so far as I understand the Protectionist’s arguments, one of the industries which a tariff wall would assist in India; and consequently the rise in wages of the manufacturing classes would not extend *ipso facto* to the rural classes. Very possibly the general operation of economic laws would tend to pull up the remuneration of the latter in time; but especially in a conservative country like India the process would be slow and gradual; and in the interval an immense amount of hardship and suffering might be imposed on the great body of our Indian workers. A time of transition is always painful, and in this case it would also be protracted.

“ 24. Protection attempts to apply State direction to production. It diverts trade from what may be called its natural channel into an artificial channel. It is often held that if by Protection an old industry is encouraged or a new industry created in a given country, that result is a clear indication of an increase in national wealth. But any such gain may be outweighed by a loss. The industry so artifi-

cially created or encouraged has been likened to a pauper. It cannot continue to exist unless it continues to receive dole after dole, and thus it lays a lasting burden on the general consumer, and through him on the economic growth of the State.

“ 25. Economists have always been inclined to admit, to a limited degree, the efficacy of what is known as the “infant industry” argument, as used by List, Mill, and others, and which is adopted in an exaggerated form by some Indian Protectionists. It is based on the theory that if the failure to establish an industry in a given country on a sound basis is due merely to lack of skill, or to some other obstacle which technically might be surmounted if that industry were granted temporary tariff Protection, it might be advisable to grant it Protection. Economists hold that such Protection would indeed inflict a burden on the community by raising the prices of necessities, but argue that if the industry in question should, after a limited number of years, be sufficiently firmly established to be able to exist without a tariff in the face of foreign competition, the resultant gain might counterbalance or even exceed the initial loss.

“ 26. Can the advocates of Protection in India satisfy the Legislature that, under a protective tariff, it will be possible to establish industries in this country which will eventually be able to fulfil the conditions thus laid down as a test of success? Do you believe that, with —I quote from Mill—‘a moderate protecting duty granted for a certain limited number of years—say, ten, or at the very most, twenty, during the latter part of which the duty should be on a gradually diminishing scale, and at the end of which it should expire,’ you can build

up industries in India? Can you assure those responsible for the Government of India that these industries 'will be able to produce articles as cheap as, or cheaper than, the price at which they can be imported' under a limited protective system? Unless you are in a position to demonstrate these important points, the case for tariff Protection is on unsound ground.

" 27. Foreign competition, unimpeded by Protection, may have acted as a stimulus to industry, necessitating enterprise, inventiveness, economy, and efficiency in production to a high degree. It has not had that effect to any appreciable extent in India; but until our endeavours to improve our industrial methods and organization in general have hopelessly failed, we can hardly call on the State to assist us by protecting our industries at the cost of the enormous number of our very poor consumers.

" 28. I have now stated a number of the chief arguments for and against Protection as an abstract theory. I am conscious that I may have stated them with somewhat more insistence on the objections than on the arguments in favour of the theory; but the reason for my doing so is that, if I may say so, the arguments making for Protection are more prominent in the mind of Indian publicists than those which are hostile to it, and, although I am very far from suggesting that this Council approaches the subject with a bias in favour of Protection, I am anxious that they should clearly realize the facts which India would have to face if such a policy were ultimately adopted. On the other hand, I have refrained from touching upon some of the most powerful reasons that ought to make a country hesitate before embarking on a Protectionist policy.

For example, I have not attempted to allude to the financial aspects of Protection. That branch of the subject would require a very lengthy explanation. It would have to take cognizance of the great alteration which a tariff wall in India would effect in the balance of our trade, in the arrangements that now exist for the payment of our external debt, and in the whole of our exchange policy. This aspect of the question is one of extraordinary complexity, as well as of no small speculation ; and I need hardly say that it would have to be most exhaustively considered before any steps could be taken towards Tariff Reform. I have also intentionally avoided any reference to the ethical aspects of Protection as a State policy, because I do not wish to bring to-day's debate on to a plane of controversy. But I would earnestly ask all Hon. Members who intend to work at this subject to study, if they have not already done so, the inner history of the influence of Protection upon political morality in the countries where it has been established for any length of time, and to consider with care whether the risks which other countries have experienced would be a fair burden to throw upon the awakening political life of India.

#### INDIA WITHIN THE EMPIRE.

“ 29. I come now to the next natural division of my subject, which arises from the consideration that India is part of the British Empire, and that its interests and its wishes cannot be ignored in any movements which affect the policy of the Empire in relation to international trade. The cardinal feature of this consideration is the fact that India has

already a tariff, and that its tariff, although the rates have varied considerably from time to time and have in the past been materially higher than they are now, is essentially designed for the purposes of revenue and not with the view to Protection.

" 30. In these circumstances it is of the utmost consequence that those who are responsible for the economic future of India should consider carefully what position India is to occupy in regard to the British Empire policy. Looking at the facts of the case and the admissions of foreign writers and statesmen, there can be no doubt that the policy of free importation practised by the United Kingdom in regard to her own home market has been of great advantage to countries like Germany and the United States in carrying out their own economic views, and in building up their own industries. But for the facility which British policy has created for the disposal of their surplus products, the high tariff policy they have pursued would not have been attended with the success which they have actually enjoyed. The counterpart of that high tariff policy, pursued in exclusively national interests by foreign countries, has been the exploitation of such markets of the world as have been left open to their efforts.

" 31. In the British Empire, however, the United Kingdom has for many years abandoned the exploitation of colonial markets in the interests of the Mother Country and has left her self-governing Colonies free to do what her statesmen thought right in the interests of those Colonies, with the result that an Empire policy has grown up in the conditions so created different in character and in objects from any policy which the world has ever seen before,

which has for its object the strengthening of the Empire as a whole by the development of the economic interests of its several parts, and the linking together of the Mother Country and the constituent States of the Empire by a co-ordination of policy and the intertwining of their economic interests by a system of preferences.

“ 32. India, owing to special conditions, has not been brought into the general Imperial trade movement, but in view of the modification of the old ideas in regard to free importation and the economic principles underlying them, and the progress of events throughout the Empire in the last thirty years, it is conceivable that India may in the future be unable to maintain a policy of absolutely free importation under which she must suffer all the incidents of exploitation of her own market. Hence the key of the future policy of India must be found in observing what is the nature of the movement taking place in the rest of the British Empire, and in considering under what conditions India could fall in with any general policy of Empire preference.

“ 33. Let us see what the progress of the Imperial movement has been. The Empire consists of self-governing Dominions, Crown Colonies, Dependencies, Protectorates, at every conceivable stage of economic development ; but during the last twenty years, irrespective of Governments and party changes in the Mother Country, the measures adopted by, or in the interests of, different parts of the Empire show a steady and continuous movement in the direction of Empire trade consolidation. Canada adopted the policy of Preference in 1897 ; that is, she gave special tariff concessions to the United Kingdom and to the Empire as a whole,

and under the successive changes of the tariff Canada and the rest of the Empire have been drawn together in ever closer relations. Canada was followed by New Zealand in 1903, South Africa in 1906, Australia in 1907. Furthermore, a series of inter-colonial preferential arrangements between Canada, New Zealand, Australia, and South Africa have been concluded, and to these has now been added an arrangement between Canada and the West Indies, which in some respects is more remarkable than any which have preceded it. Thus the self-governing portions of the British Empire, excepting alone the United Kingdom and Newfoundland, have gradually formed a network of Imperial and inter-Imperial preferential trading arrangements. The British Empire may be said to be regarded as consisting, not of an aggregation of separate entities with no mutual relation to each other, but of a family of States animated by a common family purpose. Each State in the first instance organizes its tariff and its policy to suit its own financial and economic needs, and gives an Imperial sanction to its policy by granting to other parts of the Empire as large a measure of trade advantages over foreign countries as is consistent with its own economic development.

" 34. The preferences in the tariffs of the self-governing Dominions, while differing in detail, have certain general features in common. The tariffs have for their main objects the production of Government revenue, the protection of home industries, the development of an export trade, and the encouragement of inter-imperial trade. The tariffs therefore include:—

- (a) Duties imposed for revenue.
- (b) Duties on competitive products.

(c) Preference secured by (1) Free List for goods produced within the Empire (as in the tariffs of Canada and New Zealand) or the United Kingdom alone (as in the case of Australia) while duties are retained on similar goods from foreign countries ; (2) remission of duty in groups (a) and (b).

“ These methods operate separately or in combination.

“ 35. The outstanding feature of these methods is undoubtedly the adoption of an Empire Free List, and in regard to this method the arrangement between Canada and the West Indies makes a new departure of great importance. In the case of certain items now imported from all countries free of duty, duties of not less than a certain fixed amount are to be imposed when the goods enter Canada from foreign countries, while freedom of entry is to be maintained for goods from the British West Indies and the United Kingdom. It is not clear what is the position of other parts of the Empire in respect of these items, but I suppose it may be presumed that Canada preserves full liberty of action in the matter. It has to be remembered that this development of Empire tariffs has proceeded at a period when the United Kingdom has to take no decisive step in the direction of preference. In these circumstances it is impossible to say what final form Empire tariffs will assume, should the United Kingdom at any time fall into line with what appears to approach a general Empire movement.

“ 36. The United Kingdom, so far as her tariff policy is concerned, at present stands outside the general Empire movement, and she

is unable, so long as the present policy prevails, to enter into schemes of mutual Empire preference which have been discussed at successive Imperial Conferences ; but if the policy of the United Kingdom were at any time to change, it is presumable that under any scheme of Preference which has been suggested by reasonable statesmen in England, tariff advantages would be extended to Indian products. Under the scheme which, so far as is ascertainable, has been generally accepted in responsible circles in the Tariff Reform movement, it was held, I believe, that in a recent year £23,000,000 worth of Indian agricultural produce and manufactures would be directly benefited by tariff preferences in the United Kingdom. I do not advance that as my opinion. I merely allude to the opinion held by those who advocate a new departure.

“ 37. What we have to consider at this stage is not the details of a possible preferential tariff, but rather whether India could, if called upon to join in a great federation of Imperial preferences, respond to that call without sacrificing the essentially revenue character of its customs schedule. Any such movement would presumably involve, in the first instance at least, a loss of revenue, unless we were prepared to raise the general incidence of the tariff from 5 per cent., at which it at present stands, to some higher figure in respect of those articles or countries for which there would be no preferences. That changes of this nature would be difficult I cannot conceal ; that they will be impossible I do not pretend.

“ 38. It can be urged that if any changes of this character were adopted in the Indian tariff, India would stand to lose by retaliatory measures on the part of foreign countries which

now take so large a proportion of Indian produce. To this the advocates of preferential tariffs might possibly reply that throughout the civilized world there is an increasing tendency to regard preferential tariffs within an empire, however widely scattered, as matters of domestic concern ; and that these preferences, in fact, do not now bar colonies from participation in the advantages of treaties with foreign countries on the ground of discrimination. Furthermore, the character of the exports of India to foreign countries would make it difficult for these foreign countries to retaliate unless the whole construction of their tariffs were modified, and they were prepared to inflict damage on their own industries, for India exports to European countries and the United States nearly £50,000,000 worth of merchandise, which consists chiefly of raw materials for manufactures, for the most part admitted free of duty, and also of foodstuffs.

#### CONCLUSION.

“ 39. Let me emphatically repeat that I have not in the foregoing remarks attempted to advocate any departure from a Free Trade policy. To do so would be to travel entirely outside my province.

“ All I have attempted to do has been to indicate certain aspects of the case which appear to have some bearing on this all-important question.

“ 40. I am not possessed of the presumption even to hope that the few, and I fear somewhat superficial, remarks which I have offered will assist you in crystallizing your views on this subject, but I do hope that they may, through you, induce a full, temperate, and

unbiased consideration, by the Indian public, of a question which must in the future vitally affect India and its prosperity.

" 41. It is this consideration which I would now invite Hon. Members to undertake for themselves after a full study of the many complex questions involved. I am far from complaining of the character of the debate to which we have just listened. It has been characterized by the sobriety and sense of responsibility which invariably mark the deliberations of this Council ; but I am sure I shall not be accused of any lack of courtesy if I suggest further consideration of the intricate and delicate issues which I have endeavoured to bring to your attention. These issues need the most careful study, and until they have been thoroughly considered from all points of view, I am of opinion that it would be unwise and premature for the Council to commit itself to the opinion embodied in the present Resolution, which I must, therefore, in behalf of Government, oppose."

THE HON. SIR GANGADHAR CHITNAVIS : " Sir, I wish in the first place to tender my warmest thanks to the Hon. Sir Guy Fleetwood Wilson for his masterly exposition of this most difficult subject—an exposition which is marked both by extreme ability and by the kindly consideration he invariably extends to proposals put forward in this Council, whether they are in accord or not in accord with the views of Government. Secondly, I should like to repeat my position. I hold that Free Trade is for an advanced nation alone which has made great progress in manufacturing industry. I look, Sir, to the future, and I say that India's future is a future of Protection. I have myself referred to the difficulties of the position in my

speech to-day, and Hon. Members must have noticed that I have advocated inter-Imperial Preference, because it has the merit of being a measure reasonably practical. It would, however, be a mistake to forget that we are not discussing to-day the respective merits of Free Trade, Protection, and Preference. The whole point, and a point of vital and immediate interest to us, is : money has to be found somehow to recoup the loss of our opium revenue. I am glad to be assured by the Hon. Finance Minister that there will be no need for additional taxation, but my point is that, if the necessity arises, the first condition of fresh taxation must be that it should be so arranged as to be least inconvenient to the people. In my view of the case, this condition can be fulfilled by revising our tariff. Taxation in any other form will be burdensome and irritating alike, and will not prove equally productive. Now, this overhaul of our tariff can be made on one or the other of the two economic principles—Protection and Preference. Exporting England does not favour even a moderate scale of Indian import duties imposed for revenue purposes. With this feeling in England, Protection for us is out of the question. Leaving that aside, we have the other method of taxation to fall back upon for our needs. That is why I have brought forward the Resolution, and I have every hope that the point raised in it will engage that amount of public attention which its importance, and, I might add, in the peculiar circumstances of the case, its paramount necessity, demands. I want and seek public criticism. My ambition does not go farther. This debate will have done immense public good if, following the sound advice of the Hon. Sir Guy Fleet-

wood Wilson, the people take up the subject in right earnest, and study, discuss, and develop the case with that care, zeal, and whole-heartedness which its seriousness deserves. This explanation furnishes an answer to the remarks made by some of my friends in Council to-day in disparagement of the Resolution.

“Sir, in view of the Finance Minister’s statement, I do not think any useful purpose will be served by pressing the Resolution to a division. I accordingly beg leave to withdraw it.”

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